

Sri Lanka Cautions New Delhi

* Vows to Stop Flotilla Bound For Rebel Area

By Steven R. Weisman
New York Times Service

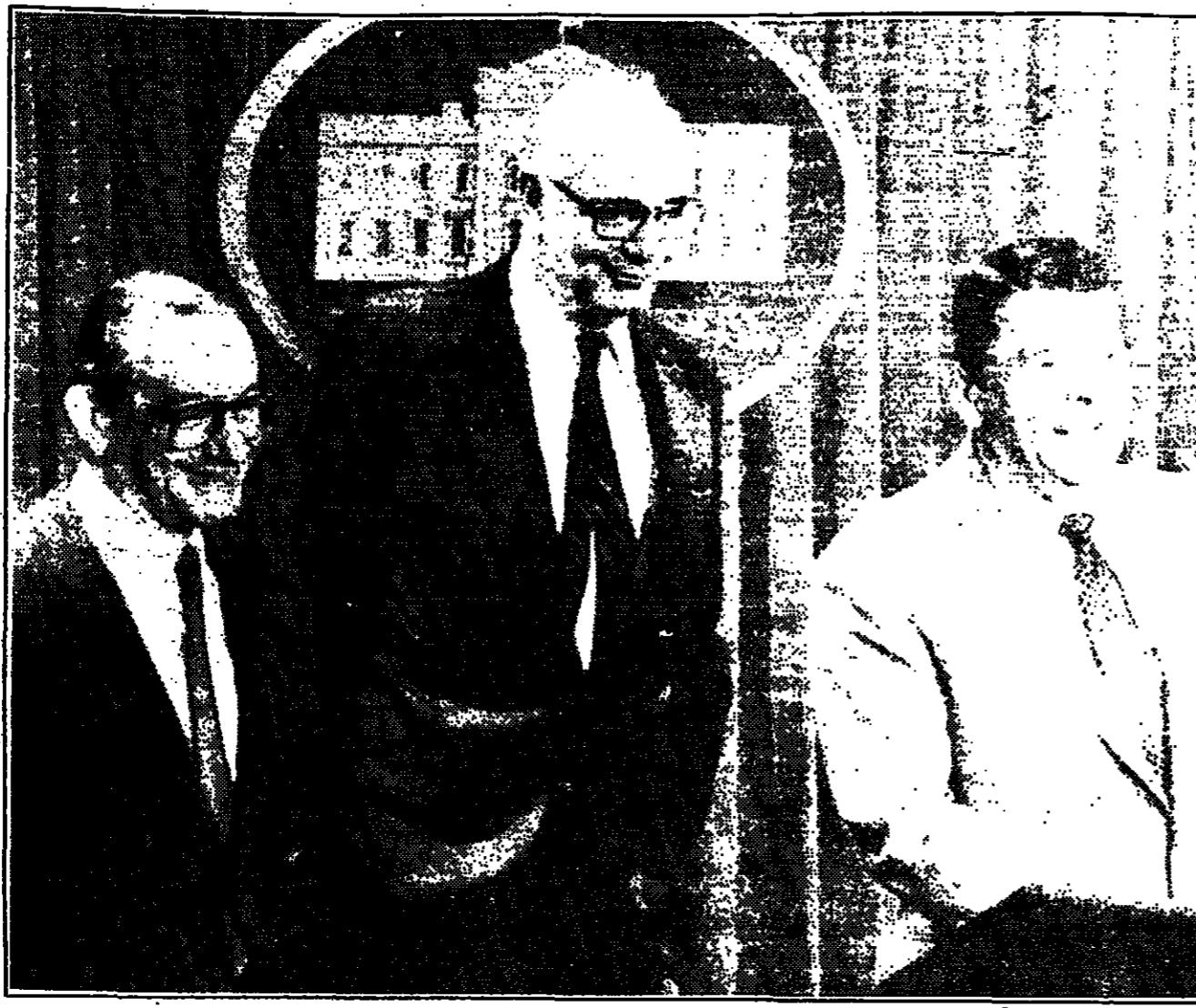
COLOMBO, Sri Lanka — Sri Lanka and India appeared headed for a serious confrontation Tuesday night as the government here ordered its armed forces to intercept a shipment of supplies from India to ethnic Tamils in the north. Brushing off the Sri Lankan threats, India proceeded with preparations for the delivery of "humanitarian assistance" by an unarmed flotilla of 20 boats scheduled to leave the south Indian port of Rameswaram early Wednesday morning.

India said it would send the food, medicine and other supplies would alleviate suffering in areas bombed and shelled by Sri Lankan armed forces. The destination of these supplies was to be a portion of the northern Jaffna Peninsula long held by Tamil insurgents. A Sri Lankan official said that if the boats did not stop and turn their goods over to the government, they would be interpreted as "illegal entrants." Sri Lanka said the supplies were unnecessary, but that it would agree to distribute them if they were handed over to legitimate authorities.

Indian officials reported that its warships were stationed in India's territorial waters in the 30-mile-wide (50-kilometer-wide) Palk Strait separating the two countries, ready to move if Sri Lanka tried to stop the shipment. "If they try to stop those boats, God help them," said an Indian official.

Sri Lankan officials contended that there was a buildup of Indian troops at air bases in southern India and that India could be looking for a pretext to invade Sri Lanka. The crisis atmosphere deepened further when the government announced that a group of Tamil guerrillas had massacred 29 Buddhist monks and at least three other civilians riding on a bus in the

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Alan Greenspan, left, on Tuesday with his predecessor as Fed chairman, Paul A. Volcker, and President Ronald Reagan.

Shultz Says More Allied Gulf Aid Isn't Vital

Reuters

WASHINGTON — Secretary of State George P. Shultz said Tuesday that an increase in allied forces in the Gulf was not vital to protect shipping against attack but that possible allied contributions should be examined.

Asked if he saw the need for a greater military presence by the allies in the Gulf, where the U.S.-guided-missile frigate Stark was attacked accidentally by two Iraqi missiles on May 17, killing 37 sailors, Mr. Shultz said: "Not necessarily, particularly, so."

Meanwhile, the House voted Tuesday, 302-105, to seek new details from President Ronald Reagan about U.S. military plans in the Gulf, The Associated Press reported.

[Democrats who control the Senate said that chamber also was likely to pass it.]

In his comments, Mr. Shultz asserted that an adequate force was needed to deter attack and noted that Britain and France, as well as the United States, maintained naval contingents there.

He said the question of the threat to shipping in the Gulf would be discussed at the Venice summit meeting of the seven major industrial democracies. It is to open Monday and end June 10.

The Reagan administration is in the process of bringing 11 Kuwaiti oil tankers under the protection of the United States by having them sail under the American flag.

But officials say that although the process is almost complete, the first ship will not carry cargo until arrangements are in place for protecting all of them.

Tankers belonging to Kuwait, a supporter of Iraq in its nearly seven-year war with Iran, have come under repeated Iranian attack.

President Reagan said in a speech Monday that the American people "are aware that it is not our interests alone that are being protected in the Gulf."

Iraq described the May 17 attack on the Stark by one of its planes as a mistake. The attack raised misgivings in Congress about the Reagan administration's plans for a higher naval profile in the Gulf.

Mr. Shultz brushed aside a reporter's question on possible U.S. collaboration on Gulf security with the Soviet Union, which is leasing three tankers to Kuwait to protect its oil shipments.

Shevardnadze Meeting

Mr. Shultz may meet this summer with the Soviet foreign minister, Eduard A. Shevardnadze, the State Department said Tuesday, according to an Associated Press report from Washington.

The department spokesman, Charles E. Redman, said there have been discussions about such a meeting, but no date has been set.

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Volcker Quits at Fed; Greenspan Is Successor

Uneasy Calm Reigns After Market Upset

By Carl Gewirtz
International Herald Tribune

PARIS — Financial markets reacted violently Tuesday to the news from Washington that Paul A. Volcker had resigned as chairman of the Federal Reserve Board, with U.S. dollar and stock prices tumbling.

The first reaction, repeated by traders in all markets, was that Mr. Volcker's resignation was an "end to an era" opening an abyss of uncertainty about the direction of U.S. monetary policy, the Fed's commitment to restraining inflation and the stability of the dollar. In most markets, the storm later subsided, leaving a nervous calm. Most analysts were optimistic about Mr. Volcker's replacement, the economist Alan Greenspan.

"The critical issue is how he — Mr. Greenspan — will deal with inflation," said Stephen Axilrod, vice chairman of Nikko Securities Co., International and former staff director for monetary and financial policy at the Fed.

"A lot of questions have been raised by Volcker's departure," he said. "Until Greenspan answers them, the markets will remain nervous," added Stephen Slifer, an economist at Shearson Lehman Government Securities Inc. in New York.

The dollar tumbled to 1.7945 Deutsche marks in New York, down more than 2 percent from its close of 1.8285 on Monday, and to 141.30 yen, from 145.05. It closed at 1.4775 Swiss francs, down from 1.5135, and at 5.9925 French francs, against 6.0975. Sterling ended at \$1.6485, up from \$1.6289 on Monday.

The Dow Jones industrial average dropped 20 points just after the announcement, then rebounded to show a five-point gain. But it ended the day off more than 10 points, at 2,778.27.

Gold surged \$10.50 an ounce in New York to \$456.45, another reflection of concern over inflation. In the U.S. bond market, traders worried that Mr. Greenspan would

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Elliott Abrams responding Tuesday to questions from Iran-contra investigators.

Reagan Acts To Fill Post Before Venice

By Lou Cannon
Washington Post Service

WASHINGTON — Paul A. Volcker, the Federal Reserve Board chairman who was the architect of the Reagan administration's successful efforts to curb inflation, resigned Tuesday. The economist Alan Greenspan was immediately nominated as his successor.

At a White House briefing, Mr. Reagan said he was accepting Mr. Volcker's resignation with "reluctance and regret" and announced the nomination of Mr. Greenspan, who served as chairman of President Gerald R. Ford's Council of Economic Advisers from 1974-77.

Mr. Greenspan, an active Republican who now runs a private consulting firm, also is credited with writing Mr. Reagan's major economic policy statement in the 1980 campaign, which argued that sharp reductions in spending and major tax cuts could balance the U.S. budget.

Administration aides said Tuesday that Mr. Reagan had moved quickly so that the Fed post would not be vacant when an economic summit meeting of seven industrialized nations begins Monday. Mr. Greenspan's appointment must still be confirmed by the U.S. Senate.

The announcement caught the financial markets by surprise. The dollar tumbled in New York and Europe, and prices slid on the New York Stock Exchange before recovering to post a modest decline for the day. A number of publications had reported that Mr. Volcker, who is highly respected in business and financial circles, would be named to a third term as chairman of the board.

Mr. Volcker, 59, said he met with the president on Monday and "told him with considerable definiteness" that did not want to be reappointed when his term expires in August. Asked if he was forced out, he replied, "I had no feeling I was being pushed."

"There's a time to come and a time to leave," said Mr. Volcker. See VOLCKER, Page 22

Shultz Told Abrams to Watch North

The Associated Press

WASHINGTON — Elliott Abrams, an assistant secretary of state, testified Tuesday that Secretary of State George P. Shultz had ordered him to "monitor Ollie" to determine if Lieutenant Colonel Oliver L. North was soliciting military aid for the Nicaraguan rebels.

Mr. Abrams said at the joint House-Senate hearings on the Iran-contra affair that he was convinced at the time that Colonel North was not soliciting arms for the contras, as the rebels are known. The official said his belief was based partly on Colonel North's personal assurances.

Mr. Abrams, assistant secretary for inter-American affairs, recalled that Mr. Shultz said at a meeting on Sept. 4, 1985, that "we don't want to be in the dark" about Colonel North's activities.

At the time, all direct or indirect American military aid to the contras was prohibited by U.S. law.

On Mr. Shultz's instructions, Mr. Abrams said, he made a note to "monitor Ollie." He added that "monitoring Ollie is not an activity you do in one morning. It's a behavior pattern."

Mr. Abrams, the first Reagan administration official to testify at the hearings, said Colonel North had given assurances that he was not making any illegal solicitations in an effort to arm the contras and had checked his activities with the White House counsel.

He said he thought Colonel North, a National Security Council aide, was simply keeping track of the private efforts of Americans to aid the rebels.

Mr. Abrams also described how he sought \$10 million in humanitarian aid for the contras from Brunei. Using the pseudonym "Mr. Kentworth," he said, he asked for the funds as he strolled in a London park with a representative of the sultanate of Brunei.

The Brunei funds, he said, were put in a secret Swiss bank account to which Colonel North had referred him.

However, the \$10 million was mistakenly transferred to an account held by a Swiss businessman because the number on Colonel North's account had been miscopied.

During an anxious exchange of diplomatic cables between Washington and Brunei, Mr. Abrams said, a Brunei official was reported to have been "visibly shaken" when told that the \$10 million had never arrived. Brunei is seeking the return

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U.S. Allows Test for AIDS Inhibitor

By Sandy Rovner
Washington Post Service

WASHINGTON — The Food and Drug Administration has authorized tests on human beings of a synthetic substance that appears to have a powerful inhibiting effect on the AIDS virus in laboratory experiments.

Called Peptide T, the substance is a synthetic copy of a naturally occurring messenger chemical that permits communication between the brain and nerve cells throughout the body.

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Because Peptide T contains a pattern of amino acids similar to that of a piece of the AIDS virus, it appears able to block the virus from penetrating cell membrane.

The AIDS virus destroys the body's immunity against cancers and other fatal infections.

Candace Pert, a neuroscientist at the National Institute of Mental Health, developed the synthetic version of the substance and tested it against acquired immune deficiency syndrome.

She announced her findings in December, but the Food and Drug Administration withheld approval for tests on human beings until they could be verified independently.

Dr. Pert announced Monday that Oncogen, a Seattle research company, had received the anti-viral properties.

The approval for clinical trials was given last week.

Dr. Pert presented her work on Peptide T at the Third International Conference on AIDS this week in Washington. More than 6,300 scientists and health workers are attending the conference.

In early tests, Peptide T has shown no toxic side effects.

It was given to four terminal AIDS patients in Sweden on a compassionate-use basis.

Three were given the substance intravenously for one month, taken off it for three weeks and given it again for a week. They appear to be in remission and one has returned to his job as a musician.

The fourth died before completion of the course of treatment.

Only one drug, AZT, has been proven effective in prolonging lives of AIDS patients, but it often has

See AIDS, Page 6

Kiosk

Chun Backs Roh In South Korea

By Julian Nundy
International Herald Tribune

LYON — Elie Wiesel, the Holocaust writer and Nobel Peace laureate, said Tuesday that the trial of Klaus Barbie was essential to stop "the killer killing a second time."

Taking the witness stand in the Lyon courthouse, where Barbie faces charges of crimes against humanity for his World War II activities as head of the Lyon Gestapo, Mr. Wiesel added that he did not think the trial should turn into one of French wartime collaboration.

Mr. Wiesel, 58, the author of "La Nuit," which recounts his own ordeal in the Auschwitz and Buchenwald concentration camps, said: "The killer kills twice. First, by killing and then by trying to wipe out the traces."

Of the Nazis' six million Jewish victims, he said: "We must prevent their second death."

He added: "We must talk, we must bear witness to what happened. This is why this trial is so important. This is why I am here. To stop the killer from killing a second time."

Mr. Wiesel was awarded the Nobel Peace Prize last year for a message of "peace, atomism and human dignity."

Barbie, 73, was not in court to hear Mr. Wiesel. He has been absent from his trial since May 13, except for a brief appearance a week ago, because he contests the legality of his 1983 expulsion from exile in Bolivia to France.

In a calm, powerfully worded statement on the Holocaust — the term he coined for the Nazi extermination of Jews, Gypsies and others — Mr. Wiesel said of his writings: "I write because I cannot understand."

He asked the court: "How can you explain the selection, the separation of children who suddenly see their fathers going away, the silent pain of a little girl who is frightened of crying?"

He also spoke of "the worst suffering, the suffering of seeing others suffer, a son seeing his father suffer and a father seeing his son tortured."

To stress the extent of Nazi motivation, Mr. Wiesel told how trains carrying victims to the concentration camps had priority over military trains taking arms and supplies.

Yasser Arafat, chairman of the Palestine Liberation Organization,



Elie Wiesel, visiting the Holocaust Memorial in Lyon on Tuesday, pointed out his place at the Birkenau concentra-



tion camp in a wartime German photograph. The memorial opened on May 11, when the trial of Klaus Barbie began.

The Associated Press

Sweden's trade balance.

Sweden's Realities

Under Prime Minister Ingvar Carlsson, Sweden is moving quietly to improve relations with the United States.

A Special Report, Pages 7-10.

GENERAL NEWS

■ U.S.-Iraqi safety precautions in the Gulf still have not been carried out.

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■ Italian journalism is being transformed by an upsurge of upstart publications.

Page 2.

■ The pilot who landed in Red Square may be imprisoned for months.

Bonn said.

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SPORTS

■ Defending titlists Ivan Lendl and Chris Evert swept into the semifinals of the French Open tennis tournament.

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BUSINESS/FINANCE

■ Factory orders in the United States in April were slowest in three months.

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Dow close: DOWN 10.01

In Italy, Journalism Is Being Transformed by an Upsurge of Upstart Publications

By Henry Tanner
International Herald Tribune

MILAN — Italian journalism is in a state of transformation and upheaval, like much of the rest of the country's economic and cultural scene.

The Corriere della Sera of Milan, which has been a leading newspaper since its founding in 1876, is fighting the battle of its life against La Repubblica, the brash Roman upstart founded in 1976, which has just made a sensational jump in circulation, leaving the Corriere in second place nationwide for the first time.

Repubblica's paid daily circulation for the last four months was 590,000 copies, up from an average of 486,000 last year. The Corriere sells around 500,000 copies a day according to Ugo Stille, the new editor, who took over two months ago and is trying to turn the paper around.

Another duel is pitting Il Sole-24 Ore, which was founded 123 years ago and until last fall had a monopoly in the finance field, against a new tabloid financial daily, Italia Oggi. Both are edited in Milan.

The newcomer is promising its readers a fresh, more critical view of the world of Italian corporations, and in an aggressive promotion campaign has called itself the country's only

independent financial newspaper. That is a swipe at Il Sole-24 Ore, which is owned by Confindustria, the national industrial employers' confederation.

Gianni Locatelli, the editor of Il Sole-24 Ore, replies that his newspaper is a money maker — with profits from book publishing and other services as well as the daily paper — and that Confindustria could not exact any favors even if it tried. "The market will decide," he said.

The paid circulation of Il Sole-24 Ore stands at 250,000 copies daily. It doubled from 1982 to 1986 — a faster rise than that of any general-interest newspaper — and closely paralleled the graphs in the stock tables of the Milan bourse, Mr. Locatelli said. Unlike the stock market, it has leveled off but not declined.

Italia Oggi, after little more than six months on the newsstands, has a paid daily circulation of just over 90,000 and will reach the break-even point at 110,000, according to Marco Borsa, its editor.

A new financial weekly, Milano Finanza, also came out last month, and publications ranging from L'Unità, the Communist Party newspaper, to Repubblica have expanded and improved their financial coverage. Even Corriere dello Sport is publishing daily stock tables.

Silvio Berlusconi, the real estate developer

who went into television only in the mid-1970s, is also on the move.

Fininvest, the Berlusconi holding company, today consists of 65 percent television interests, about 12 percent publishing, 10 percent finance and only the remaining 13 percent in real estate "and other" interests, according to Rosario Pacini, an official at the group's headquarters in Milan.

Mr. Berlusconi's latest move, a week ago, was to sign a contract with a state-owned satellite company giving him the technical means to transmit live television programs simultaneously to his 17 regional stations around the country instead of sending cassettes.

All he needs now is a government decision permitting private companies to use simultaneous transmission. Christian-Democratic politicians in Rome have been blocking this, but future governments are expected to grant it. When that happens, Mr. Berlusconi will have scored his final victory over RAI, the state television company, whose monopoly he has been steadily eroding.

In the newspaper field, Mr. Berlusconi achieved financial control earlier this year of Il Giornale, the conservative Milan daily. He now owns 70 percent of the company, up from 37.5

percent he did buy a daily paper, and why this particular one? Mr. Pacini explained that Il Giornale, under its editor, Indro Montanelli, is a rare "nonconformist voice" that Mr. Berlusconi, as a Milan-based industrialist, wanted to keep alive. The paper, Mr. Pacini said, was "the only space still open between the leftist Repubblica and the Corriere della Sera, which is too bourgeois." Il Giornale, he said, requires large new investments to survive, and Mr. Berlusconi is willing to spend the money.

Repubblica, the brain child of Eugenio Scalfari, its editor and co-founder, is in a category of its own among Italian dailies.

There are only three general-interest dailies that can be called national newspapers. Two of them — the Corriere and La Stampa in Turin — derive their strength from blanketing their home regions and then expanding to a national audience from there.

Repubblica, by contrast, is a national newspaper from the start, with no local constituency. Based in Rome, it never had the financial backing of major businesses that Stampa and Corriere have enjoyed.

Its main fare has always been politics and its style is provocative in all directions. At first it was aimed chiefly at left-leaning nonparty intellectuals in big cities such as Rome and Milan.

Later it added sports, human-interest and entertainment coverage, which at first it had found beneath its dignity. Still later it added cultural supplements aimed at the provincial elite. The latest innovation is a salmon-colored weekly financial supplement.

The Corriere — under Mr. Stille — is trying to pull out of 10-year crisis during which it lost both circulation and its credibility as an opinion maker.

His task, Mr. Stille said, is to take a great newspaper that has lost touch with the times and make it "less boring and more modern without sacrificing seriousness and credibility."

The Corriere's problem is not unique. "Other great newspapers, including Le Monde and the Times of London, had to be turned around," Mr. Stille said.

The newspaper is financially sound — a consortium headed by the Agnelli of Fiat took over Rizzoli, the publishing company of which it is a part. "We are making a profit," he said. "We have a solid engine, and we have begun to change and oil the rusty parts." His plans include expanded financial coverage.

Fifty percent of Repubblica is owned by Editoriale L'Espresso, in which Mr. Scalfari has a minority stake and which also publishes the weekly Espresso. The other 50 percent is owned

by the Mondadori publishing house, which publishes the weekly Panorama — Espresso's chief rival. Mondadori and Editoriale L'Espresso, although sharing the ownership of the Republics, are arch competitors in the national magazine field.

Two related families — Mondadori and Formentor — own 50.3 percent of the holding company AME Finanziaria, which in turn owns 50.3 percent of Mondadori. Carlo de Benedetti's Sabaudia holding company owns 21.2 percent of Mondadori and 15.5 percent of AME, as well as 17 percent of Editoriale L'Espresso.

The boards of Italian newsstands are growing under the heft of thick magazines many of them new, with titles like Piace (Pleasure) and Capital aimed at the market of the newly affluent or pleasure seekers or both.

Mr. Berlusconi, a new arrival among publishers, is set to move into the expanding market.

His plans include construction of a press complex with a capacity to print four million copies of his Sorrisi e Canzoni (Smiles and Songs), a TV guide and light-entertainment magazine that now sells about two million copies. There will be room for a new magazine called Telegiorni (More TV), which will make its appearance in the fall, as well as a new movie magazine and family and women's weeklies.

WORLD BRIEFS

Joint Draft Completed on Missile Pact

Compiled by Our Staff From Dispatches

GENEVA — U.S. and Soviet arms negotiators have completed the first version of a joint draft treaty that calls for the elimination of their nations' intermediate-range nuclear missiles in Europe, a Soviet negotiator said Tuesday.

"As a result of the work done at the current round, said Alexei A. Obukhov, the deputy leader of the Soviet arms negotiating team, "the sides have drafted the first joint draft text of the treaty on medium-range missiles."

He said that much work remained to be done and that the two sides would now concentrate on removing numerous areas of disagreement in the joint document.

It is the first time that the two sides have been working from a single, joint treaty document since they requested arms control efforts in March 1985.

Mr. Obukhov said at a news conference that negotiators had completed the document on Monday, putting together a single text from rival drafts.

A spokesman for the U.S. delegation, Terry Shroder, confirmed that the first draft text had been completed.

Mr. Obukhov specified three U.S. demands as unacceptable:

- The right to convert medium-range missiles, which have a range from 600 to 3,000 miles (1,000 to 5,000 kilometers), into shorter-range weapons instead of eliminating them. Shorter-range missiles have a range of 300 to 600 miles.

- Requiring the Soviet Union to begin destroying medium-range missiles first because it has more of them. Mr. Obukhov said the Soviet Union wanted both sides to start the process at the same time.

- Basing the remaining 100 U.S. medium-range nuclear warheads in Alaska, which is within range of Soviet territory. There have been proposals at the talks to allow each side to keep 100 intermediate range warheads, with the Soviet warheads to be deployed in Soviet Asia.

Aides to Mr. Obukhov said that a treaty could be completed some time in October, allowing a summit meeting between President Ronald Reagan and the Soviet leader, Mikhail S. Gorbachev, to be held in November in Washington.

"I think we will be able to find common language on verification," Mr. Obukhov said. "We are for strict verification, including on-site inspections."

Mr. Obukhov said that any agreement on shorter-range missiles must include the "liquidation" of the U.S.-controlled warheads for West Germany's 72 Pershing 1-A missiles. These have a range of about 450 miles. (Reuters, UPI)

U.K. Loses Case Against Newspapers

LONDON (AP) — A High Court judge ruled Tuesday that there are no legal grounds to charge three newspapers with contempt of court for publishing extracts from the memoirs of Peter Wright, the retired operative of MI5, the British counterintelligence agency.

The judge, Sir Nicolas Browne-Wilkinson, rejected the government's contention that The Independent, the London Daily News and the London Evening Standard were in contempt because they knew about injunctions barring two other papers from publishing the material. The government said it would appeal, and Attorney General Sir Michael Havers warned that anyone publishing or broadcasting Mr. Wright's work still risked contempt charges.

The government has blocked British publication of Mr. Wright's memoirs, "Spycatcher," for two years. It is appealing an Australian court order that would allow publication there.

Sweden Increases Military Budget

STOCKHOLM (UPI) — The Riksdag, Sweden's unicameral parliament, approved on Tuesday a five-year military budget that provides for the first real-term increase in Swedish military spending in 15 years. Critics of the budget argued that the increase, 1.5 percent annually in real terms, was not enough.

The budget was adopted more than five years after a Soviet submarine ran aground off a southern Sweden naval base. The incident led to a change in the security policy in Sweden, a neutral country that had been scaling down its military forces since 1972. Under the plan, the number of mobile anti-aircraft missile battalions will be doubled to four. To detect submarines, warships will be fitted with new sonars and more sea fleet early-warning systems will be set up.

The spending increase will be about half of what the military has requested. Next year's military budget will be 23.8 billion kronor (\$3.5 billion).

Khomeini Abolishes Islamic Party

NICOSIA (AP) — Ayatollah Ruhollah Khomeini, the Iranian spiritual leader, has abolished the Islamic Republican Party, warning that "sowing discord is one of the greatest sins," the party newspaper, Jonoon-e-Islami, reported Tuesday.

The decree Monday by Ayatollah Khomeini to abolish the party followed a request by the Iranian president, Ali Khamenei, and by the speaker of the parliament, Hashemi Rafsanjani. The paper quoted the officials as saying that while the party had played a major role at the beginning of the revolution, it had outlived its usefulness and "may provide an excuse for discord and factionalism."

The party held its first elections in 1979, under the leadership of Ayatollah Mohammed Hussein Beheshti, then the second most powerful leader in Iran. He was killed along with more than 70 others when a bomb explosion destroyed the party headquarters in 1981.

Duarte Announces Reforms, Amnesty

SENSETIPEQUE, El Salvador (AP) — President José Napoleón Duarte marked the start of his fourth year in office by announcing economic and social projects, an amnesty for political prisoners and permission for 98 wounded guerrillas to leave the country.

Mr. Duarte traveled Monday to this town, 50 miles (80 kilometers) northeast of San Salvador, to inaugurate a health center. He told legislators, military commanders, diplomats and visitors that he would permit the wounded guerrillas to seek medical treatment outside El Salvador, but insisted that the rebels free nine people they kidnapped, including two mayors.

Singapore Bishop Sees Lee on Arrests

SINGAPORE (Combined Dispatches) — Archbishop Gregory Yeo said Tuesday he was convinced the Singapore government had nothing against the Roman Catholic Church when it accused 16 persons of a Marxist conspiracy and arrested them on May 21.

Church sources said Prime Minister Lee Kuan Yew invited the archbishop and Aniello Giovanni, the Vatican's representative based in Bangkok, to discuss the arrests of 10 church workers and six other persons under the Internal Security Act. The act permits arrests without a warrant and detention without trial.

In Geneva, the International Commission of Jurists urged Singapore Tuesday either to bring to trial or release those detained. The human rights group issued a statement and a copy of a letter to Singapore's ambassador, See Chak Mun, protesting the detention. (Reuters, UPI)

Australian Death Now Is Laid to Dog

DARWIN, Australia (Reuters) — Lindy Chamberlain, imprisoned for life for murdering her 9-week-old daughter but freed after three years, was pardoned Tuesday after an official inquiry found evidence to support her contention that a dingo, or wild dog, had killed the child.

The Royal Commission in a 380-page report, concluded that new evidence presented at the inquiry had raised serious doubts about the guilt of Mrs. Chamberlain and her husband, Michael. He had received a suspended sentence for supporting his wife in the alleged murder.

During the murder trial in 1982, Mrs. Chamberlain said that a dingo had grabbed her baby from a tent in a desert area of central Australia in 1980. The body never was found, but in February a tattered jacket was found and Mrs. Chamberlain identified it as her daughter's.

For the Record

Five suspected members of the Red Brigades have been arrested in Rome in connection with the March 20 assassination of an Italian Air Force general, Licio Giorgieri. Italian news agencies said Tuesday, (UPI)

The Paris murder trial of three accused guerrillas of the leftist Direct Action group opens Wednesday in a special anti-terrorist court with no jury. The first trial was postponed indefinitely in December after five jurors withdrew and a defendant threatened the judge. (Reuters)

TRAVEL UPDATE

Sweden Expects Disruption of Flights

STOCKHOLM (Reuters) — Flights to and from Sweden may be disrupted Wednesday, when air traffic controllers plan to step up actions to back pay demands, airport officials said Tuesday. Air traffic controllers are banned by law from going on strike.

Domestic flights have been affected by a ban on overtime for controllers and their refusal to work in place of colleagues who are sick. Officials said the problems were likely to begin to affect international flights.

Seventeen British Airways baggage handlers were arrested on Tuesday. They are accused of stealing clothing and other items from passengers' luggage. A total of 40 have been arrested in the airline's investigation of missing luggage. (UPI)

Correction

An article Tuesday erred in naming the architect who designed the Pompidou Center in Paris. The building was designed by Richard Rogers and Renzo Piano.

Along Indian Border, China Rattles the Saber

By Edward A. Gargan
New York Times Service

LHASA, Tibet — As tension across China's easternmost border with India continues, China is pouring large numbers of soldiers and weapons into the sparsely populated mountainous area along the two countries' disputed border.

In the last two weeks, convoys of troops, artillery, rockets and supplies have been winding over the dusty gravel road leading to the border.

One day last week, Chinese Army trucks covered with thick olive-green camouflage netting trundled through the southern town of Zedang toward the border 75 miles (120 kilometers) away at a rate of one minute over a period of six hours. In one convoy, 14 four-wheel-drive trucks were seen hauling camouflaged artillery pieces.

Both Indian and Chinese officials emphatically deny that there have been any conflicts between the two armies. Nonetheless, both Tibetans and Westerners with long experience in Tibet said the level of military activity exceeded even the usual highly visible presence of the Chinese Army here.

Since 1960, China and India have contested their boundaries, drawn vaguely by Britain in 1913 and 1914. After the Communist takeover in China in 1949, the new government rejected that demarcation. In 1962, the two countries fought a brief and indecisive war along sections of the 700 miles of mountain ridges running from Bhutan to Burma, which the British government had declared the official border.

Concern among Western countries over the possibility of armed conflict between the world's two most populous nations is acute, and diplomats and military attaches from various countries have visited Lhasa and nearby towns in recent weeks. Two army liaison officers from the U.S. Consulate in Hong Kong were in Lhasa.

Two Western journalists, a reporter for the Finnish newspaper Helsingin Sanomat and a freelance photographer from Canada were caught last week by Chinese



TOPSY TORO — At the San Isidro Fair in Madrid, Juan Antonio Ruiz, who fights as Es Partaco, executes a pass. The bull's horn was rammed into his head but the fight went on.

Syria Vows to Avenge Assassination; New Lebanese Prime Minister Named

By Nora Boustaney
Washington Post Service

BEIRUT — Vice President Abd al-Halim Khaddam of Syria vowed Tuesday night that the killers of Prime Minister Rashid Karameh of Lebanon would be punished.

This was the first direct Syrian threat to avenge the death of their closest and most influential ally in Lebanon.

The warning coincided with accusations by Moslem leaders that the Christian militia had been behind a bomb blast Monday night aboard an army helicopter carrying Mr. Karameh from northern Lebanon to Beirut.

Salim al-Hoss, 57, a Sunni Moslem who was named acting prime minister, said Tuesday that he would pursue his predecessor's policy of national dialogue.

"I am going to continue the work and follow the political path of the assassinated prime minister," said Mr. Hoss.

Mr. Khaddam, who was in Trip-

Millions of U.S. Children Called Potential Failures In School and in Society

By Barbara Vobejda
Washington Post Service

WASHINGTON — As many as a third of the 40 million school-age children in the United States are at serious risk of failing in school and society, creating "massive, urgent and problems" for the nation, leaders of 11 education organizations have warned.

The coalition, the Forum of Educational Organization Leaders, represents the views of teachers, school administrators, superintendents, school boards and principals.

The coalition warned that this potentially huge number of unproductive citizens — many of them handicapped by drug problems, poverty and their own criminal behavior — will drain the economy through welfare and social service costs and seriously hamper the nation's ability to compete internationally.

On Monday, the group called for federal and state governments to guarantee "an array of necessary educational services" designed to help such youngsters graduate from high school.

Suggestions included pre-kindergarten classes, programs to improve parents' involvement in children's education, assigning mentors to students who have repeatedly failed in school, and giving high school graduates who meet certain standards a chance at a job or college.

The educators said that a growing body of evidence has prompted them to push the issue of these failing youngsters to the top of the national agenda.

"The American people have not accepted this as a major concern," said Mary Hatwood Futrell, president of the National Education Association, which represents teachers. "Until it becomes a national priority, we'll plod along as we are today."

The educators pointed to a "radical change" in the nature of students, citing these statistics:

- Nearly one-fourth of the nation's children live below poverty level.
- Almost 60 percent of 4-year-olds will live in a single-parent household before they are 18.
- The rate of births to U.S. teen-

agers is twice that of any other Western nation.

- Nearly 40 percent of public school students are minorities.
- Delinquency rates among children age 10 to 17 have increased 130 percent since 1960.

- Drug use by teen-agers is the highest for any industrialized nation.

The coalition also cautioned that the current education-reform movement may be contributing to the problem by raising standards without providing extra help for students, thus encouraging more youngsters to leave school before graduation.



Pierre S. du Pont 4th

Du Pont's Controversial Ideas Are Drawing Attention

By E.J. Dionne Jr.
New York Times Service

DES MOINES, Iowa — Quietly but persistently, serious Republicans are asking this question: Is Pierre S. du Pont 4th on the way to becoming a serious contender for the Republican nomination for president?

On the face of it, that status would seem a long way off. Mr. du Pont still hovers at about 1 percent in polls of Republicans, both nationally and in Iowa.

Until Mr. du Pont announced his candidacy last year, almost no one thought of him as a potential president.

But if there was unanimity on anything at this past weekend's Midwestern Republican Leadership Conference in Des Moines, it was that Mr. du Pont was the Republican presidential candidate who did himself the most good.

"He has a lot of very realistic ideas," said Paula Damke, a party leader from Lincoln, Nebraska. "He was very impressive."

Arliss Brown, also of Lincoln, was impressed as well. Her only doubt was the main plague of the du Pont candidacy: "People don't think he can win it," she said.

But one impressive weekend at one Republican "cattle show," as politicians call the joint appearances of presidential candidates, does not a candidate make. And some of the ideas that Mr. du Pont uses to get attention may be in the end, the undoing of his candidacy. But for the moment, Mr. du Pont is enjoying the attention.

He has built his candidacy on these proposals:

- He would gradually end all farm subsidies over five years. Mr. du Pont argues that farming should

be part of the free market like most other economic activities.

- He urges the scrapping of Aid to Families With Dependent Children and other welfare programs, replacing them with compulsory work at 80 percent of the minimum wage. "If you don't work," he says, "you're always to applause. You don't get a check."

- He would make Social Security payments partly voluntary by allowing participants to place their contributions for an entire year in an Individual Retirement Account. For each year a taxpayer dropped out of the program, his or her ultimate Social Security payment would be cut by 1-40%.

- There should be mandatory drug testing for high school students.

- Every American would be eligible for loans for education or retraining. The government would

guarantee the loans. The program would apply as much to students as to displaced workers. "People should be empowered to invest in themselves," he says.

What ties these ideas together is Mr. du Pont's modified libertarian philosophy, a view that individuals should make their own choices and be held responsible for them.

Representative Jack F. Kemp of New York, another Republican presidential candidate, argues that a politician who would tamper with Social Security "is a candidate for a frontal lobotomy." Mr. du Pont says he is "surprised at Jack for defending the status quo."

In debating Mr. du Pont, former Governor Bruce E. Babbitt of Arizona, a Democratic presidential candidate, said some of Mr. du Pont's proposals put him "to the right of Jesse Helms."

Mr. du Pont, a former Delaware governor, had a rather liberal record when he served in the House of Representatives. He says he moved from fairly conventional moderate Republicanism to his current view when he saw the positive impact of tax cuts on the Delaware economy. His conversion to "supply side" conservatism, he insists, has nothing to do with political expediency.

If Mr. du Pont is to have a real chance at nomination, the mechanics are rather simple: He will spend most of his time in Iowa and New Hampshire, preparing for a respectable finish. If he were to oust Mr. Kemp in the caucuses in Iowa next winter and run third, he might be on his way.

Expectations of him are so low that he does not have to do any better than that to stay in the race a while longer.

AMERICAN TOPICS

Problems of Cities

Are Getting Worse

As race riots erupted in American cities in the long, hot summer of 1967, national leaders gathered in Washington to find ways to deal with the violence and its causes.

Late last month the organization that emerged from that crisis, the National Urban Coalition, convened again in Washington and agreed that few of the problems that drew the group together 20 years ago have been solved.

"Homelessness afflicts many thousands more people today than it did two decades ago," said Carl Holman, a former journalist and college professor who has been the coalition's president since 1971. "Substance abuse was a problem in 1967; it is epidemic in 1987." He also listed "illiteracy, the health care crisis, the disappearance of low income housing."

"Would those 800 dignitaries who gathered in 1967," Mr. Holman mused, "have imagined that today we would seriously be speaking of a permanent underclass?"

Notes About People

Senator John Glenn, 65, Democrat of Ohio, says he may run again for president, but only if he

is able to pay off the \$2.1 million balance remaining from his 1984 campaign debt. "If we get that taken care of and behind us, obviously a decision would have to be made," he said, adding in a reference to Gary Hart. "When Gary got out, it obviously opened things up tremendously."

Jimmy Carter, 62, and his wife Rosalynn, 59, are co-authors of a new book, "Everything to Gain: Making the Most of the Rest of Your Life" (Random House, \$16.95). "Our purpose," Mrs. Carter told U.S. News & World Report, "was to show people a few simple rules for living longer." She said of the former president's political future, "I would like for Jimmy to run again, but he won't do it." Mr. Carter said: "Well, I couldn't get elected, to start with. And I've had my term, and I'm satisfied that the Democrats will put forward some big people in the next term. Besides, we have a good life now."

California has taken another big step toward cleaning up its smoggy air. The state, which has led the country in controlling automobile pollution, is promoting the use of methanol, a form of alcohol made from natural gas and coal, that is less polluting than gasoline. One oil company agreed to sell methanol at 75 percent of its stations in California, and another is considering the idea. The state plans to subsidize bus and truck fleets that convert to methanol, which will sell for roughly the same price as gasoline.

One reader has written The New York Times saying she has learned to put up with being put on hold when she makes telephone calls, and to endure receiving unsolicited advertising messages on the phone. What Leslie Chambliss was not prepared for was a recent call with a recorded message saying: "Hi.

Mr. Hutt died in October 1985 at the early age of 53, after a period of ill health.

He had been educated at Mill Hill and Worcester College. After a period on the Stock Exchange, travelling and running his own gallery in London, he returned to academic studies at Oxford and became a research fellow at the Institute of Archaeology, where he received a doctorate.

His studies led to several periods in the Middle East where he also served as Assistant Director of the British Institute of Persian Studies in Tehran.

His academic studies, writings and acquisitions were especially related to Iran where he collected and travelled extensively.

His long association with the major Islamic festivals, especially those in London in 1971 and 1976, which he was instrumental in organizing, and the International Carpet Conference, meant that exceptionally important and magnificent creations passed through his hands.

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Aid Package For Maputo Is Uncertain

By David B. Ottaway
Washington Post Service

WASHINGTON — The Reagan administration appears to have rejected a Democratic proposal, endorsed by the Soviet Union, for a joint humanitarian relief operation in Mozambique, U.S. officials said. An estimated 4.5 million Mozambicans are suffering from food shortages.

The proposal, which would involve U.S. and Soviet coordination in distributing mostly U.S.-supplied grain in Mozambique, was presented to the Soviet leader, Mikhail S. Gorbachev, in April by two Texas Democrats, House Speaker Jim Wright and Representative Mickey Leland, the chairman of the House Select Committee on Hunger.

The United States was to provide grain and the Soviet Union was to provide planes, helicopters, trucks and ships, Mr. Wright said. "At each delivery point, there could be a Soviet and American person," he noted.

Mr. Gorbachev found the proposal "very interesting" and proposed further talks, Mr. Wright said. The speaker said he mentioned the proposal to Secretary of State George P. Shultz and his reaction was "not what I'd call an expression of wild enthusiasm, but he didn't say, 'Don't do that.'"

Mr. Wright said he met last month with Chester A. Crooker, assistant secretary of state for African affairs, and was told that the Reagan administration preferred working through United Nations disaster relief office in Maputo, the Mozambican capital.

Several U.S. officials said they believe it is highly unlikely that the Reagan administration will accept a partnership agreement with Moscow in Mozambique, where a Marxist government is building a self-described anti-communist insurrection.

Rebels Attack Bases

Riotist Mozambican rebels said Tuesday they had attacked military bases inside Zimbabwe for the first time, Reuters reported from Lusaka.

Egypt Raises Sugar Price As Part of Pact With IMF

Reuters

CAIRO — Egypt increased sugar prices on Tuesday by 8 percent as part of an agreement with the International Monetary Fund that provided Cairo with \$325 million in credits.

The cost of 2.2 pounds (one kilogram) of sugar rose to 65 piasters (30 cents) from 60 piasters. Government stores will continue to sell 2.7 pounds of subsidized sugar for 10 piasters to people with ration cards.

Jordan and the PLO at one point supplying grants to builders.



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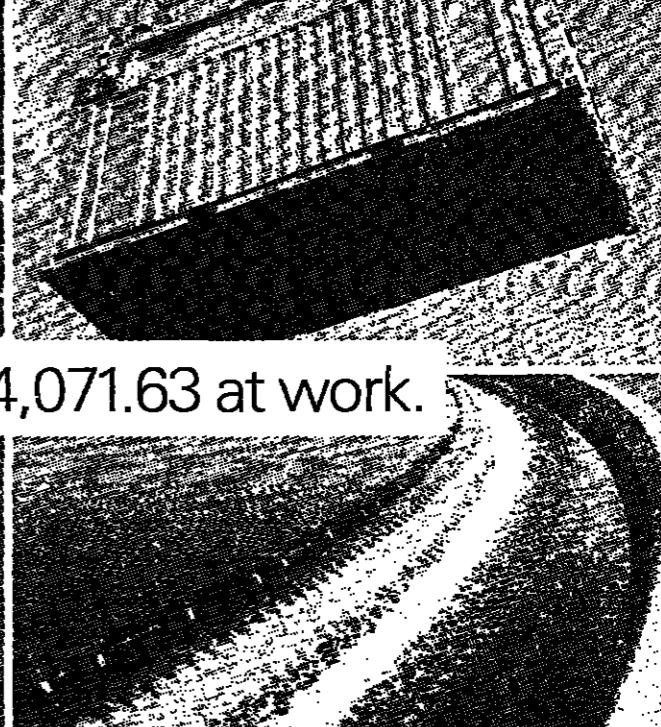


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Irish Ayes and Europe

Ireland, at last, has said yes to the European Community's harmless little amendment to the Treaty of Rome allowing more majority voting, and thus a bit less delay, in the construction of a genuinely free European market by 1992. Sensibly, the Irish voter rejected the thesis that this menaced the country's traditional neutrality, with NATO under the beds. The Single European Act can now operate. Will it bring faster progress?

This is not Europe's most glorious moment. It has become increasingly inward-looking. Far from creating its own economic unity and then moving toward broader horizons, it seems bogged down.

Internal war is rife. The dispute about farm prices, a hasty annual, drags on, and longer-term reform of the extravagant Common Agricultural Policy remains talk rather than action. Some small progress has been made to reduce excess output of milk and beef, but there is no advance on grains, which Europe grows at vast expense compared with world prices. There is deadlock on the revision of the system whereby farmers are protected against changes in exchange rates, which means that revaluation of an over-strong currency has no effect on the incentive to the West German farmer, for example, to overproduce. The nonsense is compounded by the latest proposal to put a new tax on vegetable oils and fats — margarine and olive oil, for example — in order to subsidize the Europeans who produce them at high cost. Just why put-

tting up the price of these products will reduce the cost of subsidizing the producers is unclear. The tax would reduce demand but not the incentive to produce.

External war is also rife. When Portugal and Spain joined the Community, their external tariffs started to fall toward the average for the EC as a whole. Now the Community threatens to raise tariffs against Japan on the grounds that Japanese exporters have had a windfall gain. The Community was supposed to be the precursor of free trade the world over, if barriers against the rest of the world go up every time EC membership expands, the best hope for free world trade could lie in contraction of the Community.

The Single Act is supposed to reinforce political as well as economic cooperation between governments. Institutional development — more officials — has already begun. The first fruits hardly promise an early and bountiful harvest. The attempt to produce a statement of principles for post-apartheid South Africa, assuming that this golden aim were ever approached, has been blocked. If ever there was a subject on which democratic Europe should show unanimity, South Africa should surely rank high on the list.

Talking big but acting small is common in international politics. Slowly, Europe may get its game together and reveal a constructive attitude toward the world. The new act may be a small step forward. But the recent signals need to be changed.

INTERNATIONAL HERALD TRIBUNE

A Dream Come True

The first wonder in the tale of Mathias Rust was the picture of the little Cessna parked in front of the fantastical onion domes of St. Basil's Cathedral. A 19-year-old West German really had flown into the heart of Moscow, buzzed Lenin's tomb and landed beside the Kremlin Wall.

It was a tale full of wonders. How could Mr. Rust have crossed some 640 kilometers (400 miles) of the world's most vaunted air defense? The Russians said it was not for want of detection. A comment by Mr. Rust that he had had "short contact" with Soviet Air Force jet about an hour into Soviet airspace supports that.

If the plane had been detected, another wonder followed: No one did anything about it. This is where the "human error" lay, according to the Foreign Ministry spokesman, Gennadi Gerasimov: the correct strategy would have been to force the plane down, he added. That invited comparison with the reaction when Korean Air Lines flight 007 entered Soviet airspace in September 1983; it was callously shot down, killing all 269 aboard. Mr. Gerasimov clearly had that in mind when he told Western journalists: "You criticize us for shooting down a plane, and now you criticize us for not shooting down a plane."

— THE NEW YORK TIMES.

What Boland Is About

What after all, is the Boland amendment? Mr. Reagan's critics insist that it is a law, by which they mean that it is a hard and fast, specific and comprehensive statute that be or others violated and for which they, and perhaps also he, must somehow pay — by political disgrace or by being held to account on derivative perjury or conspiracy charges or conceivably, in the president's case, by impeachment. The president's defenders hold that the Boland amendment in its several versions is basically a congressional policy statement that advises the president and limits some of his options but does not remove his capacity to conduct policy and certainly does not remove his capacity to conduct policy by means not explicitly outlawed.

This is the broad context in which so many interested parties to and observers of the Iran-contra hearings have come to sound like constitutional lawyers. Does the Boland amendment, it is asked, cover simply the activities of executive departments or also the activities of the president's National Security Council staff? Does it ban not only the use for the contras of appropriated funds but also the use of private and foreign funds that Ronald Reagan, Oliver North and others scrounged up when appropriated funds were proscribed? Does its power of the purse give Congress the upper hand? Or is the president liberated by the countervailing doctrine of separation of powers and by his constitutionally endowed power to conduct foreign relations?

— THE WASHINGTON POST.

Other Comment

The Flight to Red Square

[Mikhail] Gorbachev, instead of forcing the early retirement of Defense Minister Sergei Sokolov, could have boasted that under his leadership the Soviet Union had nothing to hide from the world.

Mr. Gorbachev could still make use of this daring stunt by the young German pilot to get rid of deadwood in the Soviet military. And he should cover it with a sense of humor by, for instance, inviting Mathias

Rust to a welcoming reception. The world has a soft spot for political leaders with the inner freedom to laugh at themselves.

— The Jakarta Post.

It may appear to us as the greatest practical joke of all. But there certainly have been a lot of red faces in the Soviet hierarchy. It may be called an act of teen-age devilry, but the breaching of the airspace of a country is also a criminal act.

— The Nation (Bangkok).

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International Herald Tribune, 181 Avenue Charles-de-Gaulle, 92290 Neuilly-sur-Seine, France

Tel: (1) 46379300. Telex: Advertisers 613593; Circulation, 612832; Editorial, 612718; Production, 630698.

Directeur de la publication: Walter N. Thayer

Editor for Asia: Michael Richardson, 5 Canterbury Rd, Singapore 0511, Tel 427-7768; Tel RS 56928
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S.A. ou capital de 1200 000 F. RCS Numéro B 73202126, Commission Paritaire No. 61337
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The Young Man Landed in Every Capital

By John E. Ullmann

NEW YORK — The flight of Mathias Rust's Cessna into Red Square is no occasion for finding comfort in the Soviet Union's discomfort. The young pilot sent a message to America about its defense system — especially about "star wars" — and to other nations about theirs, too.

Once again we see the dramatic failure of complex technological systems that rely at crucial points on humans. Once again we see that the technology that is supposed to enhance national security fails, and thus diminishes it.

It is hardly news to the United States that a small plane can duck under a radar screen. U.S. drug enforcement agencies contend with such illicit flights every day — with limited success.

As the Cessna wended its way to Moscow, the Soviet and Finnish air control systems demonstrated "blind spots." They received stimuli or alarms for which they were not prepared.

The Soviet system was set up for military incursions by fast, high-flying objects; the Finnish system was simply run-of-the-mill.

So instead of looking at Mr. Rust's flight as a lark, let's consider it an urgent invitation to examine a whole string of similar failures — most recently, the frigate Stark's nonreaction to the Iraqi attack in the Gulf. The Stark's anti-missile system also seems to have had a blind spot — like the one in a car's rearview mirror.

The Stark was in a low state of alert and did

not expect an attack even though it was sailing in a war zone. Perhaps the Soviet air defense system was similarly relaxed. And why not? International tensions are at a low level.

And what about the other failures?

After the attack on Libya in April 1986, the United States learned that nearly one-third of its aircraft were unable to complete their missions. Furthermore, in spite of being fitted with so-called smart bombs, they failed to hit certain targets that had been carefully pinpointed by intelligence reports. Moreover, this happened a few months after the Challenger disaster and a succession of failures of other rockets.

The inquiries into these events demonstrated a common pattern: a combination of human and equipment failures. Like the flight to the Kremlin, these malfunctions have been independent of the political systems that produced them. In other words, it is crucial for both superpowers to recognize the limits of such systems.

There is a real danger that this lesson will not be learned. The American reaction to the attack on the Stark was to escalate the navy's role in the Gulf and to place U.S. naval forces there on high alert.

Surely, we can expect that the defenders of Soviet airspace will also be placed on higher

alert, with orders to shoot more quickly, as in the case of American ships in the Gulf.

In short, the Cessna and Stark affairs mean that trigger fingers will turn much more itchy — and that the world is placed in increased jeopardy.

Since the beginning of the machine age, engineers' answer to human frailty has been, "We'll automate human intervention away." They forget that machine systems are human creations and thus have limits of reliability. Their kind of "thinking" leads to leaving life-and-death decisions to erratic computers.

Thus, in assessing the feasibility of the Strategic Defense Initiative we must pay attention to the limits and reliability of technological systems. Predictably, SDI proponents are dismissing the warning inherent in the Cessna incident. But common sense tells us that we cannot rely on their claims about the protection that the SDI will provide. For example, its proponents have always excluded nonmissile delivery systems from their equations.

The bottom line of the Cessna incident is that with ever greater sophistication of weapons, shorter reaction times and increasing technology failures, the war system has come to a dead end.

The writer, an engineer, is professor of management and quantitative methods at Hofstra University in Hempstead, New York. He contributed this comment to The New York Times.

From Biden, A Bit Too Much Fuzz

By David S. Broder

CAMBRIDGE, Massachusetts — Believe me, there was no coordination. But when Senator Joseph Biden came here the other day in his campaign for the Democratic presidential nomination, he took up the challenge laid down recently in this column (*IHT*, May 26) to the contenders: Tell us what standards you would use in deciding whether to intervene in world hot spots.

The dilemma, an old one, confronts U.S. foreign policy today in both the Gulf and Central America.

As ranking Democrat on the Senate Foreign Relations Committee, with acknowledged expertise on arms control, Mr. Biden was a fine person to start the dialogue. But his speech revealed a temptation to fuzz the issue. I missed the speech, but from his aides and several spectators encountered later, it is evident that the audience sensed the same thing.

The Delaware senator has no difficulty making himself plain when he wants to. Confronted by a member of the Harvard audience who had backed Gary Hart and thought Mr. Hart had received a raw deal, Mr. Biden made three quick, notably sentimental points. First, "I was the only one [of the contenders] dumb enough to think Hart was telling the truth" about his fateful escapade "and defend him publicly." Second, "if I stayed in the race, I would have beaten him because I'm a better candidate. And third, I'd make a better president than he would have."

China passed through the Cultural Revolution and the post-Mao succession crisis without a noticeable ripple in its foreign relations. Its underlying social stability, due to a homogeneous Confucian culture, ruthless political control and nationalism, will help the Chinese surmount their current economic and succession problems as well. Despite its industrial backwardness, this nation — containing one-fourth of mankind — will be able to dream. But there will be less money for the open door. And China may learn that there are no quick solutions for modernization.

The writer is a recent Indian ambassador to France. He contributed this to the International Herald Tribune.

China: Keeping the Door Open Has Had Its Costs

By Narendra Singh

SHANGHAI — Hong Kong is deceptive. It fosters the feeling that free enterprise suits the Chinese and will spread easily to the mainland. And in Beijing, the scores of Western businessmen revolving through the lobby doors of the new joint-venture Sheraton Hotel perpetuate the notion. So do the long lines of Toyota and Volvo taxis waiting outside.

Are not experiments being tried with a market economy and private garden plots? Has not the focus been shifted from class struggle to economic construction? Many Chinese young people allowed to study abroad are reluctant to return: Surely the youth — 500 million are under 30 — will force a change.

Soon, however, the opposite kind of evidence starts to mount.

Wages are negligible: \$10 per month in the communes, where 80 percent of the people work, and twice that in the cities. No one owns land. For food, clothes and housing, people depend totally on the government: through subsidies, it keeps the prices of essential items ridiculously low. The people are uniformly well fed and clad, and some even own television sets. No one is down and out.

Could subsidies possibly be abandoned, market economics be introduced and prices be allowed to rise without impoverishing millions? From Manchuria to Sichuan and from Beijing to the South China Coast, one notices little variation in life-styles and attitudes. Wages are distributed through party officials, called union secretaries, thus ensuring their hold on the workers. No one can change residence or travel without the permission of the employer — that is, the state. No plane, train or hotel will book him without a permit. Officials say such control is essential for discipline, unity and security. Is it likely to be relaxed?

The youth want change, but they have no idea of any alternatives. They also know that the state is too powerful to challenge. Cosmetic changes such as colored clothing are aimed mainly at them, as are propaganda campaigns like the one against "bourgeois liberalism." Traveling in China has persuaded me that the purpose of the "Deng reforms" was to encourage efficiency, production and technological progress — not economic liberalization or democracy. Beijing spread the notion

that it was liberalizing to make Communism less obnoxious to Western peoples, especially businessmen.

The core of the Deng plan is to build the nation's infrastructure, import foreign skills, technology and some capital to do so. Decentralization of financial control led to consumer buying sprees. And the government has spent much money on reconstruction — as attested by the new boulevards and high-rise apartments in Chinese cities and the new roads between villages.

China, meanwhile, has failed to boost oil exports to meet its import bills, and foreign businesses have not invested to the extent expected.

There have been other problems. The much-heralded "special economic zones," aimed at boosting exports, have not taken off. Total investment in Shenzhen is impressive, but 70 percent goes into the infrastructure and little into productive units. The tourism agency there has been debating whether to promote gambling and prostitution to attract tourists.

Japan has failed to transfer all the high technology China hoped for.



Shanghai's Crowded Streets Augur Ill for the Nation

By Jay Mathews

now. They must cope along in the drastically narrowed streets.

In one sense, this means the Chinese are doing very well. Our closest friends here, college-educated city workers, my wife and I knew when we lived in China, now have refrigerators.

Many have secured bigger apartments. The latest campaign against "bourgeois ideas" seems to limit only public discourse. Private talk remains lively. Well-connected Chinese, such as one Politburo family, seem to dare to make all kinds of comments and contacts considered politically suspect.

So why fret about crowded sidewalks? The birth-control issue, after all, has lost the sense of urgency. The "One Child Is Best" billboard I used to pass every day in Beijing has been replaced by an appeal for health consciousness. It may take a bad rice crop or two to remind us Westerners why we need to worry about this. All the other changes in China these days have pushed the story into the background.

Publicity has never been essential to reproduction. The Chinese popula-

tion passed the one billion mark in late 1981. It has grown by an additional 60 million people since then, more than the population of France.

That growth has not gone unnoticed in Beijing. Judith Bamster, China branch chief at the U.S. Census Bureau's Center for International Research, has followed Chinese birth-control policies and patterns for years. A new official Chinese survey, in which 600,000 people are sampled each year, offers the best data we have ever had on Chinese growth.

The Chinese birthrate, after hovering around 2.1 percent, dropped to 1.76 percent in 1980 with the advent of the one child per family policy. A lower minimum marriage age allowed the rate to return to 2.1 percent in 1981 and 1982; more intense application of the one-child policy pushed it down again to 1.86 percent in 1983.

At this point reports of forced abortions and the murder of female infants, less desired than males, reached the West. The birthrate dropped to 1.75 percent in 1984 and was 1.78 percent in 1985, at a high cost.

In late 1984 the Chinese press began to signal a change. Ms. Bamster learned that a still unpublished "Document No. 7" had been issued in Beijing in April, softening the program. An appeal for "fair and reasonable" population control, clearly a phrase taken from the document, appeared in several Chinese newspapers. Given a choice between more growth and more popular discontent with the Communist Party, the Politburo took the lesser of two evils, and the results quickly showed.

Newly released official survey figures show the birthrate up to 2.08 percent, with the death rate, as usual, hovering around 0.6 percent to 0.7 percent. In a country where the vast majority of rural elderly can depend only on their sons for support, boy babies are preferred. In some provinces rural couples who produce a girl first are now allowed a second child.

The old rules that kept unemployed peasants out of the cities also have

ended. "Floating" populations of city workers, not exactly legal, not exactly illegal, add to the midday crowds. Carl Haub of the Population Reference Bureau notes that the number of women of child-bearing age is about to jump significantly, pushing the birthrate even higher.

Some Western scholars, such as Thomas Sowell of the Hoover Institution, needless those who worry about overpopulation. They note that living standards in Hong Kong, with its 14,322 persons per square mile, are better than in Chad, with a mere 10.5 persons per square mile. They

OPINION

I, Yegor: The Hard-Liner In Gorbachev's Shadow

By William Safire

NEW YORK — I have to marvel at the good luck of Comrade Gorbachev. He needed to sweep aside the old caretaker at the head of the Red Army without giving power to a marshal like Nikolai Ogarkov or Sergei Akhromeyev, who might have asserted the army's traditional role in the Kremlin. Along came a German teen-ager who made fools of our military by landing his plane in Red

ESSAY

Square, and Mr. Gorbachev had the excuse he needed to slip in a junior officer.

As secretary of the party — the one the Western press likes to call the "number two man in the Soviet Union" — I, Yegor Kuzmich Ligachev, must now assess the meaning of this move to those of us who do not share the Gorbachev ardor in promoting *perestroika*, the reordering of the power elite. (*Glasnost* is merely a mode of play; *perestroika* is what the game is about.)

With the army neutralized, the KGB's domination of the party through Mr. Gorbachev is seemingly assured. But resistance to KGB rule is growing in the party, especially among those elements who fear the need to introduce market-commodity forces. These party men seek some ally of the Gorbachev clique who is more "conservative," more willing to slow the *perestroika* by appearing to oppose the speed of *glasnost*. That person, of course, is me.

However, young Comrade Gorbachev is no fool; he understands the need to turn on one's supporters before the opposition can enlist them. That is why I am his next target. I am too acceptable as his alternative — trusted by the Andropov KGB men, while not so distrusted by the old Brezhnev party apparat.

If I were Mikhail Sergeyevich, I would arrange for the transfer of Yegor Ligachev or any other potential rival to some remote electrical station. As a first step, he has saddled me with the agricultural portfolio, and seeks to replace me as ideological chief with his propaganda minister, Alexander Yakovlev.

But I am wise to that trick. My Siberian party roots were nurtured by the

Contention in the Kremlin

MANY Soviet people are angry, believing that Mikhail Gorbachev is undermining Soviet ideology more effectively than foreign propaganda could. Yegor Ligachev, the number two in the Kremlin, has openly challenged Mr. Gorbachev's position on history. The Gorbachev drive against Stalinism, it seems, can only increase Soviet polarization and exacerbate tensions in the Kremlin.

—Vladimir Shlapentokh, an emigre professor of sociology at Michigan State University, in the *Los Angeles Times*.

ideologists under old Mikhail Suslov, who came to power after the ouster of Nikita Khrushchev, when that "reformer" went too far in demoralizing the Stalinists. As a result, I understand how to exploit the resentment of "reform."

And so I send out signals of understanding to the anti-Gorbachev elements by frowning at the rehabilitation of a poet shot in 1921 for leading an anti-Bolshevik coup. I disapprove the glibness with which some newspapers wallow in criticism of prostitution and homosexuality. More to the point, I openly oppose Mr. Gorbachev's plan to limit the tenure of party officials. Do I disagree with his shake-up of the economy? Of course not; in October the Revolution will be 70 years old, and we cannot forever blame our inability to feed ourselves on the weather. New Russian faces are needed to replace the corrupt and beautified local leadership.

Nor do I disagree with his foreign affairs pyrotechnics. He will make a deal with the Americans on "star wars" just as he did on missiles in Europe; he will upset them by moving into the Gulf, and drive them crazy with a tour of Latin America. He is not giving a millimeter on Afghanistan or Cambodia. He has seduced the Third World's "Delhi Six." And he is splitting the NATO alliance by seeming to threaten the Warsaw alliance. All to the good.

It turns out that Anatoli Dobrynin was right: The American left is entranced with the Gorbachev style and will use the threat of me as a reason to urge Mr. Reagan to accommodate him.

(That helps Russia without really helping Mr. Gorbachev, which is why I permit Western pundits to read my mind.) Where Mikhail Sergeyevich and I differ, and the reason that one or the other of us will become a nonperson, is the ethnic subversion of Mother Russia. I hold that Russians must remain in charge lest our nation be pulled apart by corrupt and greedy separatists. Shall the Kazakh language replace Russian? Should the Ukraine, which welcomed the Nazis, celebrate Kiev as the font of Soviet culture, rather than Moscow or Leningrad?

Mr. Gorbachev calls for "special sensitivity" toward these non-Russian republics, where half of our people live; he was all too willing to reroute Siberian rivers, an expensive ethnic appeasement that I stopped. He has sponsored a Georgian, Edward Shevardnadze, to the Politburo, and will not join our KGB effort to replace the Ukrainian Vladimir Shcherbitsky or the more vulnerable ethnic Azerbaijanis, Géldar Aliev.

My comrade Mikhail Gorbachev has his uses; like Khrushchev, he will be remembered as a necessary cathartic to our system. But his radical changes will come about under a conservative man, one who puts Russia first.

The New York Times.



LETTERS TO THE EDITOR

The Fate of Deportees

Why is it that The Washington Post editorial writer has "misgivings" about the deportation of Karl Linna (*IHT*, May 7) and not a second thought about the United States's deportation of political refugees from Guatemala and El Salvador? The editorial notes that Linna was put into the hands of the Soviet criminal justice system, which has very different standards from America's. Do the "criminal justice" systems of El Salvador and Guatemala have the same standards as those of the United States?

Many thousands of people in those two countries have been executed by military, paramilitary and far-right death squads in the past decade because of their political beliefs: ethnic backgrounds, or simply because they were in the wrong place at the wrong time. Those who flee such persecution are deported into the hands of the police in these countries every day with no fanfare and considerably less litigation than what Linna was afforded.

Upon their return, they may face execution — or death by torture. Perhaps it is time that the public and the press begin having misgivings about the definition the Reagan administration uses for political refugees — misgivings, for that matter, about all of President Reagan's policies in Central America.

PETER HOPPMANN
Chengdu, China.

Atis Lejins's argument (*Letters*, May 19) against the lawful and overdue extradition of Karl Linna to Soviet Estonia, there to be tried for war crimes, was

ed later to persuade the U.S. Congress to approve the Marshall Plan legislation and appropriations; this action, followed by the creation of the Cominform, was most fortunate, because anti-Soviet feeling was largely the basis for congressional approval.

ALFRED E. DAVIDSON,
Paris.

The Price of Knowledge

As a former American university professor, I would like to point out that Edward B. Fiske's report, "In U.S., Harsh Debate Over Why College Costs Rose So Rapidly" (*May 13*), omits two important factors contributing to the impossible costs of college education.

First, many universities maintain what are in reality professional athletic programs with huge budgets. The abuses of this system are well known.

Second, the majority of senior faculty members — particularly the so-called superstars, men and women who receive very high salaries by academic standards — may teach only two or three hours a week. Their time is devoted to attending conferences and giving papers, directing dissertations and doing research.

Classroom work is done largely by underpaid teaching assistants.

Even to apply to a U.S. university is expensive. The director of admissions of a prestigious small college recently admitted to me that the universities are afraid of centralization; this fear, he added, would probably make it impossible to simplify the application process.

DONALD J. LEVIT,
Larrabasterra, Spain.

Marshall and Molotov

In "Forty Years On, Another Fork in the Allies' Road" (*IHT*, May 23), James Reston was no doubt unintentionally misleading in stating that all European Communist governments were invited to participate in laying the groundwork for the Marshall Plan but that "all refused." In fact, Molotov led a large Soviet delegation to a Paris meeting, from which they later withdrew.

In light of the strenuous efforts need-

GENERAL NEWS

ISRAEL: The Barriers Are Gone but Jerusalem Remains Sharply Divided

(Continued from Page 1)
we'll solve them over the next 200 to 300 years."

The history of modern Jerusalem is to a great extent a story of neighborhoods, traffic arteries and land-use plans and the ways such planning tools can be used to serve political ends.

When the barriers came down 20 years ago, Jerusalem was a provincial backwater, stunted and disfigured by 19 years of physical separation after Israel gained independence in 1948 and fought Jordan to a draw.

As Jewish immigrants poured into the new state from Arab countries in the early 1950s, many were transplanted into grim, fortress-like apartment complexes along a no-man's-land. Many apartments had slits suitable for marksmen, and the buildings were arranged in angular configurations designed to impede a tank assault.

These neighborhoods remain among Jerusalem's poorest. Their younger residents were the shock troops in the anti-Arab violence in November.

The residents of these neighborhoods, said Alan Freeman, a spokesman for the Jerusalem Foundation, "lived through all those years under a siege mentality and they still retain a siege mentality even in the second generation."

After the 1967 war, Israel decided to annex East Jerusalem and adjoining areas to signal to the world that it would never permit the city to be divided again. The idea, said the city architect, David Kroyanker, was to claim "maximum land and minimum Arabs, to put it bluntly."

—David Kroyanker, city architect

But each side measures achievements by its own yardstick. While the city boasts that the Arab infant mortality rate has been cut by two-thirds, Palestinian physicians note that it is still double that of the Jewish community. There are four clinics for mother and child care in East Jerusalem, and 28 in the rest of the city.

Mr. Kollek likes to point to the Sheik Jarrah Clinic, an Arab community health center in the Arab sector, built with about \$6.5 million from his Jerusalem Foundation.

But Nafez Nubani, the physician in charge, says the clinic is far from complete because of a shortage of money and manpower. Both he and

Jerusalem operates under Israeli civil statutes. These statutes allow a range of political activities and civil liberties unknown during the days of Jordanian rule and rare in the Arab world.

There are trade unions, professional associations, five daily newspapers and at least two major newsweeklies, student organizations and a theater group. But the Palestinian press is scrutinized by the military censor far more closely than are Israeli or foreign reporters, and laws allowing six-month administrative detentions and other restrictions can be used against activists.

The result is a process of nation-building in East Jerusalem that respects

Mr. Kollek contend that many Jewish donors to the foundation refuse to allow their money to be used for an Arab project. The clinic, they say, still needs about \$3 million.

Inequities are likely to continue, city officials argue, as long as Arabs refuse to play a role in city politics.

For years Mr. Kollek has tried to cajole Arabs into running for city council. But such an action would constitute recognition of the legitimacy of Israeli rule, something no East Jerusalem Arab is prepared to do publicly.

When Israel took control in Jerusalem, Arab residents were allowed to apply for Israeli citizenship. Only about 1,000 did so, while the rest retained Jordanian passports.

Numerically, all residents may vote in municipal elections and about 20 percent do so regularly, providing Mr. Kollek and his ticket with its margin of victory in several campaigns.

Indeed, some Israeli leaders see East Jerusalem as establishing a precedent that they eventually would like to extend to Arabs in the rest of the occupied territories.

"East Jerusalem is the model: apply Israeli law and at the same time offer the option of citizenship," said Moche Arens, a cabinet minister and a leader of the rightist Likud bloc.

But rather than becoming reconciled to Israeli rule, Palestinians have turned their sector into the unofficial capital of a growing national movement.

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Despite the lack of public housing, the Palestinian population has nearly doubled in 20 years, with Jordan and the PLO at one point supplying grants to builders.

Too Much of a Good Thing Has the Châteaux Worried

By Joseph Ward

WASHINGTON — Describing some leading 1985 Bordeaux wines, critics have used words like "ripe," "precious" and "charming." But what would an economist say about the 1985 vintage? That is it overpriced; that it suffers from the vagaries of the foreign exchange market; that with another large, healthy crop in 1986, the supply of fine Bordeaux wine far exceeds demand. All of which adds up

MEANWHILE

to the possibility that a crash is coming in the Bordeaux wine market.

The wine industry tries hard to escape these economic facts of life. The great châteaux of Bordeaux imagine that they are producing works of art, rather than a potable agricultural commodity. By rationing supply, producers can beat the market — but not forever. As with any other agricultural commodity, what goes up in price must eventually come down.

The true enemy for producers is overabundance. The recent string of good years — of large crops and high prices — has produced a glut.

Prices for the top classified growths have doubled between 1983 and 1986. There are considerable unsold stocks of the fine 1983 vintage, with the mediocre 1984 arriving now. After a brisk start in the futures market last summer, demand for the good 1985s has gone flat, and some American merchants have canceled or drastically reduced their orders. This is the scene as growers set prices for their 1986s, another good and prolific vintage.

The industry's problems are aggravated by the dollar's instability. A strong dollar in 1984-85 helped cushion foreign consumers from the worst effects of the price spiral. But today's weak dollar exacerbates the spiral. At the current rate of 12 francs to the dollar, a price reduction of 20 percent will leave the 1986s at about the same price in dollars as the 1985s. But that price cut in francs probably will not be enough to clear the market.

The trade in Bordeaux is divided over what to do. There is concern that a sharp price reduction for the 1986s would have a serious secondary effect, sending prices for the 1985s tumbling. This, of course, is exactly what is needed, but some producers who have grown rich in the past few years are prepared to defend the inflated prices by withholding stocks. That is risky, expensive and doomed to failure if consumers do not panic.

Some proprietors seem to be preparing for a battle to keep prices up by restricting supply. A notable feature of a drive through the Médoc these days is the number of storage barrels under construction. So what about the coming crash? Prices coming out of Bordeaux indicate a mood of caution. Well-known properties — châteaux such as Lafite-Rothschild, Mouton-Rothschild and Palmer — have released their first tranches of 1986 wine

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Soviet May Hold Pilot For Months, Bonn Says

The Associated Press

BONN — The Soviet Union may hold Mathias Rust in prison for months before deciding whether to charge him for his flight across Soviet airspace and landing in Red Square, a West German Foreign Ministry official said Tuesday.

The Soviet authorities "are carrying out their investigation into the case now and that could take several months," said the official, who asked not to be identified.

But the official added that while the investigation of Mr. Rust's flight could be concluded more quickly, "it is not known what will happen."

The Bild newspaper, citing an unidentified Kremlin informant, reported that Soviet officials were likely to sentence Mr. Rust, 19, to at least one year in prison.

The source said that Soviet authorities felt compelled to take stern action to discourage others from attempting to duplicate the flight. Foreign Ministry officials declined comment on the report.

Mr. Rust flew a single-engine Cessna across 420 miles (680 kilometers) of Soviet territory, landing Thursday.

Criticism of Military

Pravda assailed elite Soviet military schools on Tuesday for producing bad graduates. Reuters reported from Moscow.

The Communist Party newspaper published excerpts from letters by two colonels complaining that the schools were full of spoiled children from affluent families who would prove to be incompetent commanders in a war.

The article drew no connection with the flight of Mr. Rust. But Western diplomats said the letters provided a clear indication to Soviet readers who knew about the flight that the military had been disgraced for failing to stop it.

The official media faced with the problem of explaining how Mr. Rust slipped through air defenses, have not reported that he landed in Red Square and have published no foreign reaction to the flight.

Defense Minister Sergei L. Sokolov, a nonvoting member of the ruling Politburo, was retired on Saturday and the commander of Soviet air defense forces, Marshal Alexander I. Koldunov, was dismissed over the incident.

A Defense Ministry report cited "intolerable unconcern and indecision" in connection with the violation of Soviet airspace.

The dismissals left the military with no representation in the country's highest body. The new defense minister, Dmitri T. Yazov, is not a full member of the party's policy-making Central Committee.



Neil Kinnock, the Labor leader, with big wheels at a factory in Derby.

Cambodia Accused of Rights Abuses

By Michael Richardson
International Herald Tribune

SINGAPORE — Amnesty International presented evidence Wednesday of hundreds of cases of detention and torture of political prisoners by the Vietnamese-backed government in Phnom Penh.

In the 84-page report, the London-based human rights organization said that more than 400 men and women were believed to be imprisoned on political grounds in Cambodia. It described alleged human rights violations in the country as "severe."

Amnesty International said it had received information on more

than 160 cases in which prisoners were tortured during interrogation, and of deaths among some of those interrogated.

The group said this torture was carried out by agents of the civil police, military and other security services of the Phnom Penh government established in 1979 after Vietnamese forces ousted the Khmer Rouge. The report documented abuses through 1983.

Amnesty International alleged that Vietnamese advisers were sometimes present during torture sessions held by the Cambodian government of Heng Samrin and occasionally took part in the torture of detainees.

It also said Vietnamese personnel had also reportedly tortured political prisoners in detention centers in Cambodia operated by Vietnam.

The forms of torture included beatings with sharp wooden staves and iron bars, whipping with chains and rubber hoses, electric shocks, and burning with hot irons, Amnesty International said.

Some detainees, the group reported, were "prisoners of conscience," jailed solely for the nonviolent expression of their political opinions or for exercising their rights to free association or free movement.

Contacted by telephone on Tuesday, an official at the Vietnamese Embassy in Bangkok denied that

it said its team of investigators had been denied access to Cambodia.

Errol Barrow, Barbados Leader, Dies

The Associated Press

BRIDGETOWN, Barbados — Prime Minister Errol Barrow, 67, who led Barbados to independence in 1966, died Monday at his residence, the government announced.

The cause of death was not disclosed. Officials said that they had been told by Mr. Barrow's relatives that the prime minister had been in poor health for some time.

The deputy prime minister, Erskine Sandiford, was sworn in as Mr. Barrow's successor by Governor-General Sir Hugh Springer.

Mr. Barrow was born in Barbados on Jan. 21, 1920. The island then was a British colony.

He governed as premier from 1961 to 1966. After independence, he won two five-year terms as

prime minister. His Democratic Labor Party was defeated in September 1976 by the Barbados Labor Party, led by Tom Adams.

Mr. Barrow was returned to office in May 1986 when his Democratic Labor Party won 24 of 27 seats in the House of Assembly.

Peter Coe, 59, Director of "Oliver," Other Hit Plays

LONDON (AP) — Peter Coe, 59, who directed such London theater hits as "Barnum," "Oliver" and "The World of Suzie Wong," was killed in a car accident, relatives reported Monday. The report did not give the cause or date of death.

Kenji Yasuda, 71, the Japanese ambassador to Ivory Coast from 1976 to 1981, died of a heart ailment in Kawasaki, Japan.

India, Israel, Austria and Denmark. He wrote plays, including "The Trial of Oscar Wilde," and directed English National Opera productions.

His "Oliver," a musical by Lionel Bart based on Charles Dickens' "Oliver Twist," ran for 2,618 performances after opening in 1960 at the New Theatre in London.

■ Other deaths:

Princess Fatenem Pahlavi, 58, the half sister of Shah Mohammad Reza Pahlavi of Iran, has died in London, The Daily Telegraph reported Tuesday. The report did not give the cause or date of death.

Kenji Yasuda, 71, the Japanese ambassador to Ivory Coast from 1976 to 1981, died of a heart ailment in Kawasaki, Japan.

Kenyan Aide Shifted From Sensitive Post

United Press International

NAIROBI — President Daniel arap Moi has announced a cabinet shuffle, including the reassignment of Foreign Minister Elijah W. Mwangle to the Agriculture Ministry, officials said Tuesday.

The president's office said Zachary Onyango, who has held six ministerial posts between 1969 and 1983, will take over from Mr. Mwangle in the Foreign Ministry.

The Foreign Ministry has been at the center of a controversy over human rights recently. In several foreign trips in the last two months Mr. Mwangle had tried to defend his country's human rights record, but the effort raised questions and doubts about it.

In addition, Mr. Moi's trip to Washington in March coincided with the publication abroad of allegations that Kenya tortured political prisoners.

Two weeks ago, the central disciplinary committee of the ruling Kenya African Nationalist Union issued a summons to Mr. Mwangle to appear before a party tribunal and alleged he brought the party into disrepute in remarks he had made in Sweden.

The summons letter was never delivered and the matter appeared to have been dropped after intervention from senior party leaders.

In announcing the cabinet reshuffle, the president's office said 11 ministers were affected by the changes, which included the creation of three new ministries.

The new foreign minister, Mr. Onyango, was educated at Syracuse University in New York.

He was dismissed as planning and economic development minister in 1983 after he was charged with killing a supporter of one of his rivals during an election campaign. He was acquitted of the charge. He was later elected to Parliament.

Britain as a Land of Photo Opportunities

Television Images, Candidate Packaging Are Focus of Election Campaign

By Howell Raines
New York Times Service

LONDON — On a drowsy Sunday morning, one of the first great tourist hordes of the summer assembled outside Buckingham Palace for the changing of the guard. Meanwhile, a scant half-mile away, a livelier and more unusual scene with its own historic overtones was being staged in St. James's Park for the lucky few who stumbled upon it.

With a pack of cameramen and photographers trailing her, Prime Minister Margaret Thatcher strolled over from No. 10 Downing Street to feed the ducks and shake the hands of a few startled Japanese sightseers.

This was a week in which she had posed with a German shepherd and a stuffed panda and visited a place where willow trees are grown for cricket bats.

For her part, her Labor opponent, Neil Kinnock, had visited a 29-ounce (856-gram) baby in a maternity ward, petted a bulldog and frolicked with his family on a windswept Welsh beach.

The contrived photo opportunity is the order of the day, said Jon Snow, a British television correspondent who covered the 1984 presidential race in the United

States. "My impression is that someone somewhere has been looking quite hard at how American presidential campaigns are run."

In a country that prides itself on putting policy ahead of personality, this contest is very much a struggle of television images and candidate packaging, and campaign technology itself has emerged as a major issue.

Both Labor and the Conservatives are using American-style advance teams that scope out scenic locations, setting up camera angles and recruiting citizens of exemplary accomplishment or affliction for staged meetings with the candidates.

The Labor Party decided early not to concede television to Mrs. Thatcher, as it did in 1979 and 1983. This means that both major parties, as well as the centrist Alliance grouping of the Liberal and Social Democratic parties, went into the campaign committed to tactics emphasizing the personalities of their leaders.

Also, campaign strategists and broadcasters agree that the proliferation of the photo opportunity is directly linked to the use of new equipment for gathering the news

— the shoulder-held video cameras and satellite linkups that quickly provide images to the morning and evening news programs.

The importance of television became clear in the week of May 18, when the Tories appeared to be caught off guard by Labor's slick efforts to depict Mr. Kinnock as compassionate toward the sick, the elderly and the three million unemployed.

It was Mrs. Thatcher's success in television campaigning that prompted Labor to abandon its traditional tactics of knocking on doors and of ideological harangues.

"We decided 18 months ago we had to reconsider the entire campaign," said Mr. Kinnock's press secretary, Patricia Hewitt. "We knew '83 had been a shambles. So we started from scratch."

■ Poll Shows Tory Gains

The Conservative Party has increased its lead over Labor, according to an opinion survey published Tuesday in the London newspaper Today, nine days before the general elections, Agence France-Presse reported.

In the survey, 44 percent said the Conservative Party supported the Conservative Party. This was two percentage points more than a week earlier, the survey said. Labor, with 33 percent, was down two percentage points, while the Alliance was up one, to 21 percent.

BARBIE: Wiesel Testifies

(Continued from Page 1)

plies to the front even as the Allies advanced.

The extermination was often carried out by educated people, such as doctors and lawyers, with refined cultural tastes, he said.

"It was a murderous enterprise that worked to perfection," he said.

Two Jewish women, who between them lost five children at Auschwitz, spoke of their experiences and emotions after Mr. Wiesel. Their children were in a group of 44 deported to Germany from a children's home in the village of Izieu, near Lyon, in April 1944.

One of the mothers, Fortune Benguigui, 83, cried before the court as her lawyer, Serge Klarsfeld, read a letter to her from her eldest son, Jacques, which he wrote on Mother's Day in 1943.

The boy, who was then 12, was one of three children who Mrs. Benguigui lost from Izieu. When he wrote the letter, his mother had already been sent to Auschwitz.

Mrs. Benguigui shouted to Judge Andre Cardini: "We can't let this criminal finish like this. How many families did he destroy?"

Barbie is charged with rounding up the children.

After Mr. Wiesel gave his statement, one of the lawyers representing civil plaintiffs at the trial asked him for his views on French collaboration with the Nazis.

Jacques Vergès, Barbie's lawyer, has long threatened to turn the case into a trial of the French wartime record. The lawyers on the opposing bench appear to have adopted a tactic of pre-empting him by putting the relevant questions to witnesses themselves.

Mr. Wiesel, a Romanian-born U.S. citizen who was educated in France, said: "I did not live through that. I knew a generous France."

But he added: "The trial of that France must take place one day, it must confront its memories. But not in this context, not in the context of this trial."

Mr. Vergès, who said he had listened to Mr. Wiesel "with a lot of emotion," then asked the witness to explain his attitude toward postwar atrocities.

He listed the deaths of Algerian children in camps under French control during Algeria's war of independence, the killings at My Lai in Vietnam and the murder of the inhabitants of Deir Yassin near Jerusalem just after the creation of Israel in 1948.

Mr. Wiesel said that such tragedies "hurt, everything hurts," adding: "But we are talking of a tragedy that has no comparison."

Mr. Vergès then shouted at Mr. Wiesel: "So it is the French alone who have to cast a lucid look at their history?"

Austria to Return Ex-Nazi Guard Deported by U.S.

Reuters

VIENNA — Interior Minister Kari Blecha said Tuesday that he would send Martin Bartesch, who was a Nazi concentration camp guard in Austria in 1943, back to the United States. The official said Austria could not become a dumping ground for war criminals.

Mr. Bartesch, 60, was arrested on Monday. He was deported on Thursday and his U.S. citizenship was revoked. According to the U.S. Justice Department, camp records list him as responsible for a shooting death at the camp in 1943.

Mr. Bartesch, who was born in Romania, spent 10 years in an Austrian refugee camp before immigrating to the United States in 1955. He became a U.S. citizen in 1966.

Mr. Blecha said in a radio interview: "Austria cannot and should not come under suspicion of being a country where you can send war criminals or people suspected of war crimes who are undesirable persons in other countries."

U.S.-Austrian relations have been strained since the United States barred President Kurt Waldheim because of allegations that he participated in war crimes.

SRI LANKA: India Is Cautioned to Halt Relief Flotilla

(Continued from Page 1)

southeastern part of the island. Sri Lanka's dominant majority of ethnic Sinhalas are Buddhists.

The Tamils, who are Hindu, make up less than a fifth of the island's population of 15 million people.

An emergency session of Parliament this afternoon, Prime Minister Ranasinghe Premadasa denounced India for trying to intervene just as Sri Lanka had come "close to victory" over the Tamil guerrillas.

He called on New Delhi officials to "recognize the dangers inherent in the action they have adopted," warning that India's action would be misinterpreted by Sinhalese citizens, who might retaliate against Tamils as they did in anti-Tamil riots in 1983.

Diplomats suggested that Colombo would probably not shoot at

the Indian boats, knowing that India could inflict much greater damage to Sri Lanka's smaller forces.

Until recently, India had sought to maintain friendly relations between Sri Lanka and the Tamil guerrillas, acting as a mediator in their on-and-off negotiations to settle the insurgency that began four years ago.

The guerrillas seek an independent nation to be known as Tamil Eelam in the north and east.

Although India opposes the creation of such a state, it has allowed the Tamils to use southern India as a sanctuary, political base and military supply center.

Indian politicians say New Delhi has to do this to maintain credibility with the guerrillas and also to retain the support of the 50 million ethnic Tamils in the area, who have close cultural and ethnic ties with Sri Lankan Tamils.

President Junius R. Jayewardene defied appeals from Prime Minister Rajiv Gandhi of India that he stop a major offensive last week that proved successful against the Liberation Tigers of Tamil Eelam in a 20-square-mile (52-square-kilometer) section of the Jaffna Peninsula.

This defiance appears to have contributed to the current confrontation, with aides to Mr. Gandhi saying that the Indian leader's credibility was at stake in the eyes not only of Indian Tamils but also Hindus in general.

Pressure on Mr. Gandhi grew amid assertions by Tamils that hundreds and perhaps even thousands of Tamil civilians died during the week from aerial bombardments and shelling by naval vessels.

Sri Lanka contends that fewer than 50 civilians were killed, but has barred journalists and other independent observers from the area.

Sweden's New Realities

IN THE NEWS

May 26: Two Swedes Charged in Arms Sale

Police charged a former director of Sweden's biggest ammunition maker and another Swedish businessman with smuggling several million dollars worth of explosives to Middle Eastern countries, including Iran, Syria and Egypt. The charges were the first in a three-year investigation into two companies, Nobel Kemi and Bofors.

May 15: U.S. Eases Technology Rules

Sweden is the first country outside NATO to be granted the same access to sensitive U.S. technology as members of the alliance's Consultation Committee (COCOM). Big Swedish companies, government agencies and other major importers will, in most cases, no longer require export licenses for equipment bought in the United States. Secretary of Commerce Malcolm Baldrige said the easing of licensing rules is aimed at increasing U.S. industrial competitiveness.

May 12: Palme Inquiry Finds Police Errors

The judicial official investigating the unsuccessful search for the killer of Prime Minister Olof Palme said the police committed elementary errors in the hours after the assassination on Feb. 28, 1986. The official, Per-Erik Nilsson, said the police failed to inform the military of the assassination, to set up roadblocks or airport controls and to cordon off a large area at the murder site, causing the possible obliteration of vital evidence.

March 12: Ban Sought On South African Trade

The government proposes a ban on trade with South Africa and criticizes the United Nations for failing to impose mandatory international sanctions to force South Africa to end apartheid. The trade ban sets a deadline of Oct. 1 for Swedish companies to end trade with South Africa and South-West Africa, the territory controlled by South Africa. If approved by the parliament, the ban will take effect July 1.

Jan. 30: Price Freeze Set To Head Off Labor Disputes

In an attempt to head off labor disputes, the government imposes a general price freeze on most goods and services. A clause in the two-year national labor agreement reached in April says that unions may renegotiate wage contracts if inflation exceeds 3.2 percent. The 1986 rate was 3.26 percent.

IN THIS REPORT

Tax Revision 9

The global push for cutting taxes has come even to Sweden, home of the world's highest taxes.

Market Matures 9

Despite Fermenta's "scam of the decade," observers say regulation of securities trading on the Stockholm Bourse has kept pace with market expansion.

Growth in M&As 10

International acquisitions by large corporations are seen as the backbone of Swedish industrial competitiveness.

Consumer Boom Masks Rough Spots

By Juris Kaza

STOCKHOLM — Spurred by easy credit and higher real personal incomes, Swedes are enjoying a consumer spending boom that for the Swede in the street leaves the impression that the good times of 1986 will roll on for most of 1987.

Buying new cars, stereos and charter tours to sunny resorts where the krona is strong, Swedes see little tangible evidence of threats to their well-being. New car registrations were up nearly 12 percent in the first quarter, including both Swedish and imported models. Economists, however, point out that the Swedish economy, perhaps more than others in Europe, has been gliding along on a cushion of cheaper oil, numbered to chronic rough spots in its domestic economic structure.

Lower energy costs largely accounted for an inflation rate of just over 3.3 percent last year, the lowest in recent memory, and this year the weak dollar has taken the teeth out of the rebound in oil prices from their bottom levels last year. But even with that, inflation is seen rising toward 5 percent in 1987 and as high as 5.5 percent or 6 percent in 1988.

The country's current account will show a surplus of just under 4 billion kronor (\$615.4 million) in 1987, but economists say this isn't enough to allow domestic interest rates to fall.

Exports aren't going to grow in pace with import-stimulating private consumption because of a combination of sluggish foreign demand and the fact that many export industries are running at full capacity and simply cannot handle more orders.

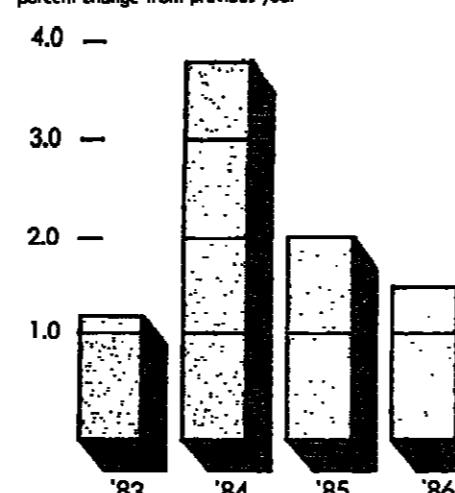
Prime Minister Ingvar Carlsson's Social Democratic government lacks its own major

Continued on page 10

Economic Concerns ■ Quiet Diplomacy

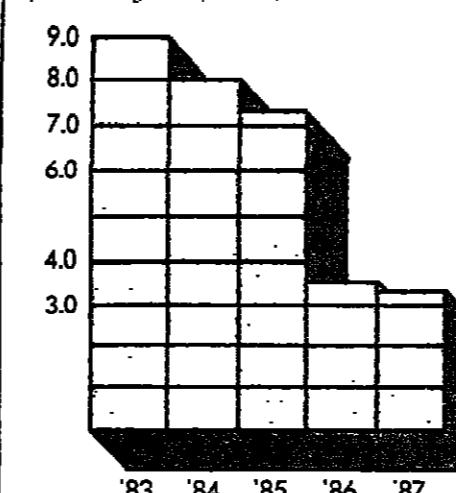
Slowing Growth

percent change from previous year



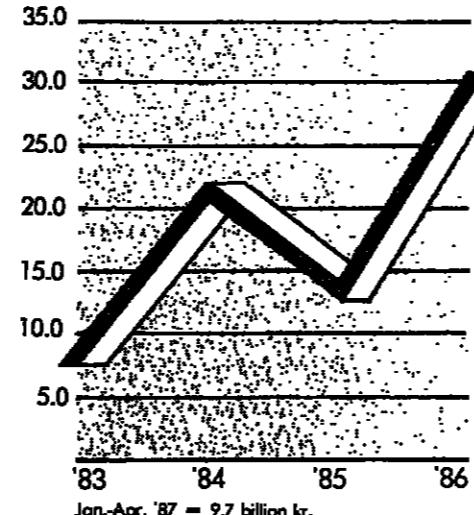
Inflation

percent change from previous year



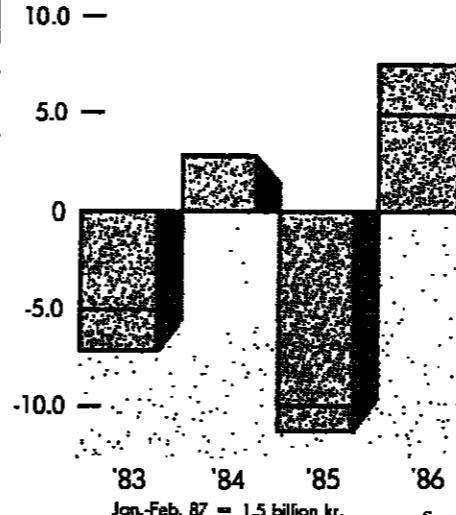
Trade Balance

Kr. billions



Current Account Balance

Kr. billions



Arms Trade Scandal Shatters Image of Clean Dealings

By Kenneth R. Timmerman

STOCKHOLM — For many Swedes, the "Bofors affair" has all the trappings of a bad dream. The further they get into it, the worse it gets. And it simply won't go away.

Revelations that major Swedish armaments companies had been smuggling high-technology weaponry and ammunition to Iran and to other blacklisted countries for nearly 10 years have opened a virtual Pandora's box, severely shaking Sweden's self-image and forcing a major policy review.

Even the efforts of Prime Minister Olof Palme, who was assassinated on Feb. 28, 1986, to mediate an end to the Gulf war have come under new scrutiny as a result of the arms smuggling affair.

Suspicions of arms smuggling first became public in 1984, when investigators from the Swedish Peace and Arbitration Society joined forces with a disgruntled Bofors employee, who provided them with documents detailing the company's misdeeds.

But the initial police investigation proceeded so slowly it failed to capture the public imagination. Many officials admit today that the reputation of the Swedish Peace and Arbitration Society as a unilateral disarmament group gave little credence to their accusations. Among other things, the society was known for its effort to halt all Swedish arms exports.

The affair rebounded on Jan. 15, when a top-ranking military official responsible for granting arms export licenses fell mysteriously to his death in front of a Stockholm subway train. Since then, the usually cautious Swedish press has pressed forward, three official investigations have begun, and new revelations have begun to unfold before the public eye.

The crux of the matter is a series of questions



Olof Palme's efforts to mediate an end to the Gulf war have come under new scrutiny as a result of the Bofors affair.

that recall those of the Iran-Iraq investigations in Washington: Who in the government knew of the illegal arms exports, when did they stop out and what, if anything, did they do to stop them?

According to the former Bofors president, Martin Ardbo, Bofors began illegally exporting weapons in October 1978, when a sale of RBS 70 laser-guided missiles to Bahrain was blocked by the government.

Swedish law forbids arms exports to countries at war or to "zones of conflict," a sweeping category that is understood to include the entire Middle East. However, it leaves the door open for companies such as Bofors to engage in marketing activities, or even, as happened with Bahrain and a few months later with Iran, to

sign contracts and accept down payments before applying for the export license.

It was this type of loophole through which Swedish companies were able to drive hundreds of millions of dollars worth of military equipment to Iran, including anti-aircraft missiles, field howitzers and armed patrol boats.

Mr. Ardbo said that faced with the fait accompli of the Bahrain contract, default on which would have damaged Bofors' reputation as a reliable partner on other markets,

War Materiel Inspector Bengt Rosénius agreed to play ball. Bofors should make it look as if the missiles were really going to a legal purchaser, such as Singapore. Then, Mr. Rosénius would push the paper through government channels to ensure that the export license was

granted for the false destination, Mr. Ardbo said.

The same process, most of the time citing Singapore as the "legal" purchaser of the equipment, was used again and again for arms exports whose real destination was Bahrain, Dubai, Oman, Libya, and especially Iran.

Anders Carberg, the president of Nobel AB, the parent company of Bofors, said recently that an internal investigation had turned up more than 10 cases where arms shipments to blacklisted countries were disguised in the company's order books as legal exports to Austria, Singapore and Italy.

As a result, Mr. Carberg said, Nobel was canceling about \$67 million in standing export orders without contest, while "at least a couple of other deals could be on the border of legality."

Mr. Ardbo, the man who engineered many of the illegal deals, was dismissed as Bofors president in March. He will escape criminal charges if he can prove that the government was aware of his activities.

And on this point, Mr. Ardbo is adamant: "We thought we lived under a system of double morality," he told an interviewer in March. "They [the government and the War Materiel Inspectorate] wanted us to do it like this."

In a related development, a 30-month investigation into illegal shipments of military explosives and gunpowder to Iran came to a head on May 26 when Swedish customs officials announced that they would seek prosecution of a former Bofors director, Mats Lundberg, and an independent Swedish arms dealer, Karl-Erik Schmitz.

A government prosecutor said that the two men had organized sales of at least 780 tons of explosives and 900 tons of gunpowder to Iran — more than a year of Sweden's entire production. They also organized gunpowder deliveries

to Iran from at least eight other countries, the prosecutor said.

The most frequently used "transfer countries" for disguising the real destination of the deliveries were Austria, Belgium, West Germany, Italy, Yugoslavia and Pakistan.

An Iranian front company was set up in Fribourg, Switzerland, to invoice the illegal deliveries, and this could lead to further charges of fraud and income tax evasion, officials said. Some of the payments were funneled through the Arbuthnot Bank in London, according to documents seized by the customs officials.

The Swedish parliament's Constitutional Commission began investigating possible government involvement in the overall arms smuggling business shortly after the mysterious death of Carl Fredrik Algren, who fell beneath a subway train at Stockholm's Central Station on Jan. 15. Mr. Algren, who held the rank of admiral, succeeded Mr. Rosénius as war materiel inspector in 1979 and was the official who granted most of the fake export permits.

Swedish officials are divided as to the real cause of his death. Some point to his honor as a career officer to suggest that he "never accepted to become the scapegoat" in the Bofors case.

Others, including co-workers who had seen him earlier on the day of his death, say categorically that he did not commit suicide.

Adding to the uncertainty was the sudden, unexplained retraction of two witnesses to his death. Initially, they told the police that they had seen someone push Mr. Algren onto the subway tracks. Two days later, they said they may have been mistaken.

Some high-ranking officials have said that

Continued on page 8

Carlsson Aims To Improve U.S. Relations

By Chris Mosey

STOCKHOLM — Quietly, with an absolute minimum of rhetoric, Sweden has changed political course to enter into a new era of rapprochement with the United States. Under Prime Minister Ingvar Carlsson, old antagonisms engendered during the various governments of his predecessor, Olof Palme, are at last being forgotten.

Mr. Carlsson will pay an official visit to Washington in September at the invitation of President Ronald Reagan, the first Swedish prime minister to do so since Tage Erlander in 1961, setting the seal on the new relationship.

While Mr. Palme, particularly in his younger years, was extremely vocal in condemning U.S. policy, especially during the Vietnam War, Mr. Carlsson, since taking over as prime minister following the assassination of Mr. Palme on Feb. 28 last year, has adopted a far lower profile, preferring instead to minimize differences between Stockholm and Washington.

In contrast to Mr. Palme, Sweden's new leader is quiet, pragmatic and almost totally lacking in any definable personality.

However, a conformist society like Sweden's places little value on individual charisma, and Mr. Carlsson is seen as marking a return to a more traditional style of leadership.

Mr. Palme, while officially revered since his assassination, is seen increasingly as a parenthesis in postwar politics, rather than any sort of logical continuation.

His anti-Vietnam stance brought the United States to the brink of severing diplomatic relations with Sweden. And even in later life, the former prime minister was capable of arousing great annoyance in Washington with his peppy criticism of American policy, fiercely championing, for example, the cause of the Sandinist government in Nicaragua.

Before taking over as prime minister, Mr. Carlsson was the organization man of the Social Democratic Party. He orchestrated the party's return to power in 1982 after six years in opposition and was rewarded by Mr. Palme with the deputy leadership. Still, he

Continued on page 10

Banque Indosuez in Sweden.

Banque Indosuez is the only European bank established in all Nordic countries (Denmark, Finland, Iceland, Norway and Sweden).

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BANQUE INDOSUEZ. A WHOLE WORLD OF OPPORTUNITIES.

Arms Trade Scandal Shatters Country's Image of Clean Dealings

Continued from page 7

Mr. Algeron's was negligent, that he simply failed to suspect foul play by Bofors. However, before taking over the War Materiel Inspectorate job, Mr. Algeron was head of Swedish military intelligence, and was thus in a prime position to know the ins and outs of the illicit weapons trade.

In fact, his immediate superior at the time of his death, Foreign Trade Minister Carl-Johann Alberg, said in an interview that Mr. Algeron was already suspicious of Bofors in 1981 and three years later "was the one who handed over information to the police." The police have not made public the results of their investigation.

Members of the Constitutional Commission said they were convinced that the government knew something was amiss at Bofors as early as 1980. They noted that two government ministers had personally audited the company's books and had elicited written statements from Bofors executives disclaiming any illegal activity.

"I have read the Bofors disclaimer," said Anders Bjork, an opposition member and deputy chairman of the commission. "And it is not very convincing."

But it was good enough for two successive governments.

One researcher at the Stockholm International Peace Research Institute compared the Bofors scandal to the prowling of Sweden's coast by Soviet submarines. "For years, the Swedes knew they were out there, but kept on wishing they wouldn't get caught," he said. "Finally, there was the 'Whiskey' [submarine] on the rocks, smack in the middle of the Karlskrona naval base, and they couldn't ignore it anymore."

The Swedes see themselves as an outpost of morality in the modern world. Sweden sparked the European groundswell against the U.S. involvement in Vietnam in the early 1970s and was the first arms producer in the world to voluntarily restrict its arms exports. Swedes find it inconceivable that their politicians might lie. Even in official circles, distrust is an uncommon phenomenon.

The facts now emerging from the Bofors case have gone a long way toward shattering this public image.

Swedish businessmen and officials bent the rules they themselves had made. Indeed, some of the most energetic supporters of Swedish arms sales were in the trade unions and in the Social Democratic Party. The reason? Bofors and other major defense contractors exported more than 50 percent of all the weapons they produced.

Mr. Palme himself was probably the most effective arms salesman of all. He convinced Prime Minister Rajiv Gandhi of India to buy Bofors field howitzers worth \$1.3 billion. Sweden's largest arms export order.

Recently, however, the press has alleged that the deal involved bribes and kickbacks. The Swedish radio has claimed that it had discovered incriminating bank documents that showed 30 million kronor (\$4.75 million) had been paid in bribes. The revelations dealt another blow to Sweden's image.

Today, many Swedes have begun to take a harder look at the whole dynamic of arms sales

It was a secret to none that Mr. Palme saw himself as an international statesman, perhaps the only one capable of bringing the Gulf war to a halt. It is also clear that he used trade incentives to woo the Iranian leadership.



Prime Minister Ingvar Carlsson, center, during a March meeting with U.S. Secretary of State George P. Shultz in Stockholm.

and of how they might affect Sweden's role in the world. One thing that has emerged is the close linkage between arms exports and Sweden's neutrality, held up as a "sacred principle" by Swedes on left and right alike.

Mr. Palme and others realized that for Sweden to remain neutral it needed a healthy arms industry. And without substantial exports, this could only be done at a tremendous cost to the Swedish taxpayer.

"The big plus from foreign sales," a researcher with the Stockholm International Peace Research Institute said, "is that they keep production lines open free of charge. Without the Iranian [and other black market] orders, the Swedish government would have to increase its own orders or begin buying many of its own weapons abroad. And that would definitely have a negative effect on Swedish neutrality."

Some politicians, such as Anders Bjork, feel it would be less hypocritical to abandon arms

export restrictions. "Swedes must understand that countries are buying weapons to use them, not to keep them on the shelf," he said.

But the current Social Democratic government prefers to maintain the principle of Sweden's moral position. Prime Minister Ingvar Carlsson announced in April that loopholes in the law would be closed to make it harder for companies such as Bofors to sell arms directly to blacklisted countries.

However, officials admitted that it was still possible for companies to skirt the law by selling weapons made under license abroad. "And we have no control over that."

Bofors alone has granted production licenses to 16 countries.

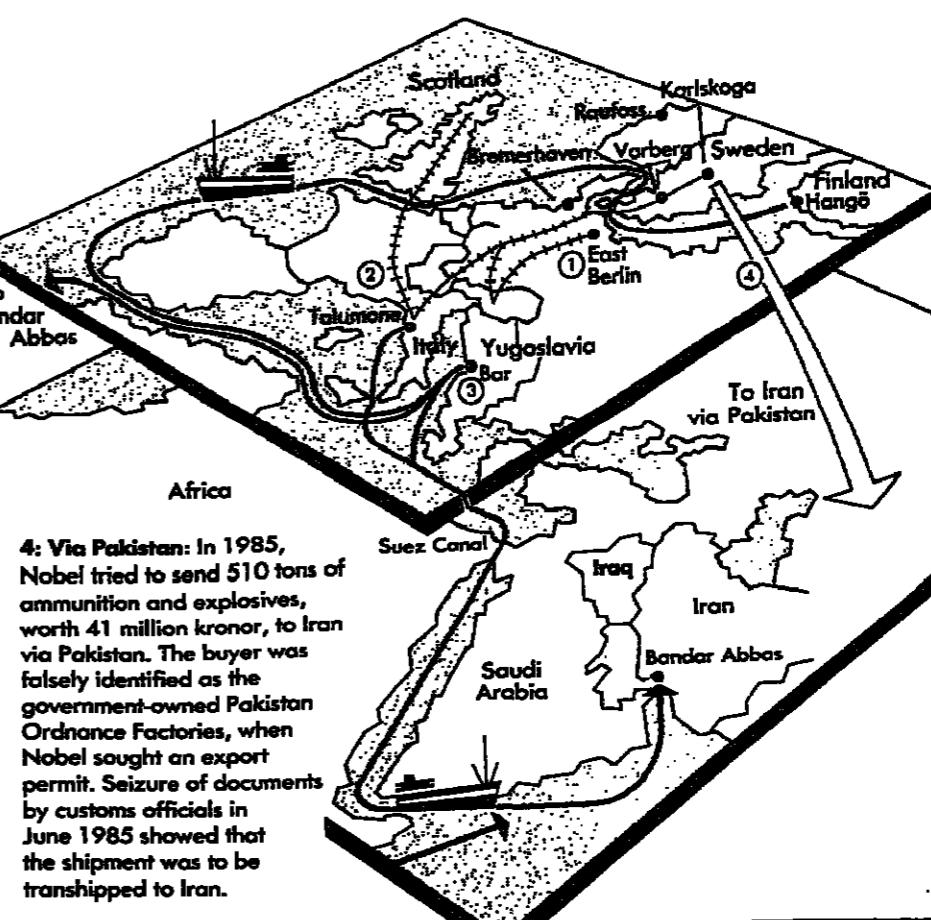
Official investigations continue to turn up evidence of arms smuggling; more companies are becoming involved, and it is suspected that Mr. Palme himself may have played a key role in illegal arms shipments to Iran as part of a

How Swedish Explosives Were Shipped to Iran

1. Via Austria and East Germany: Between 1981-85, Nobel Kemi delivered 600 tons of ammunition to Iran in 26 shipments valued at 38 million kronor.

2. Via Italy: In 1984, Tirrena Industrie in Italy received an order from Iran for 5,300 tons of ammunition, 900 tons of which it contracted to Nobel Kemi. Nobel had delivered 50 tons, before Tirrena was stopped by the Italian government. It delivered 200 tons of explosives via Tirrena, worth 10 million kronor.

3. Via Yugoslavia: In 1985, Nobel Kemi, through a company set up in Yugoslavia, undertook to deliver 1,300 tons of ammunition, part of a 4,700-ton contract, including South Africa. Nobel subcontracted with Muiden Chimie in the Netherlands, Raufoss in Norway, Kemira in Finland and Nobel Explosives in Scotland. A total of 230 tons was shipped to Iran from Karlskoga, Sweden, in March 1985.



Graphic adapted from Dagena Nyfeler, with illustration by Hans Molin and data by Björn Stenqvist.

larger effort to win Iranian support for his UN-backed plan to end the Gulf war.

A New York Times Magazine report in February alleged that Mr. Palme blocked an illegal shipment of Bofors howitzers to Iran in July 1983. Subsequent reports in Sweden say he called back two ships carrying howitzers on their way to Iran, one off St. Helena's Island and the other off the coast of Mozambique.

But in interviews, government investigators with access to about 6,000 pages of documents on the smuggling said that Mr. Palme knew about other deliveries to Iran "and did nothing to stop them."

Mr. Palme began courting Iran's mullahs shortly after the 1979 revolution. Before he returned to power as prime minister in 1981, he headed a team of UN mediators trying to bring the Gulf war to a halt, and he is said to have forged close personal ties with many Iranian leaders.

In 1983, Mr. Palme concluded a large-scale oil deal with Iran at disadvantageous prices, despite Sweden's historic shift away from Gulf suppliers in favor of North Sea oil.

Trade officials said the Iranians urged the deal on Mr. Palme as a means of balancing trade between the two countries. And although adverse publicity eventually killed that particular oil deal, Sweden concluded other deals for Iranian oil worth \$176 million over the next three years.

The oil deals were significant because they were politically motivated. Despite Mr. Palme's stated attitude of "neutrality" toward both belligerents in the Gulf war, no similar gesture was made toward Iraq. Indeed, Swedish oil purchases from Iraq over the same three-year period were only \$5.75 million, according to government figures.

Meanwhile, Iran became a major market for Swedish products, with civilian exports to Iran

topping the \$500 million mark in 1984. "Our foreign policy and Mr. Palme's good name helped establish this disproportionately large Iranian trade," one official said.

It was a secret to none that Mr. Palme saw himself as an international statesman, perhaps the only one capable of bringing the Gulf war to a halt. It is also clear that he used trade incentives to woo the Iranian leadership into taking his advice.

With Mr. Palme's assassination and the death of Mr. Algeron, the whole truth about Swedish arms deliveries to Iran may never be known. However, one thing is certain: The Bofors affair marks the end of the Palme myth. Sweden has lost its innocence.

KENNETH R. TIMMERMAN, associate editor for the Washington-based *Journal of Defense and Diplomacy*, is the author of "Fanning the Flame," a study of arms sales to Iraq and Iran.

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Total assets, SEKm	191,053 us\$28,914M	175,013
Return on assets, %	2.45	1.32
Return on equity, %	27.7	16.9
Capital ratio, %	7.4	6.3

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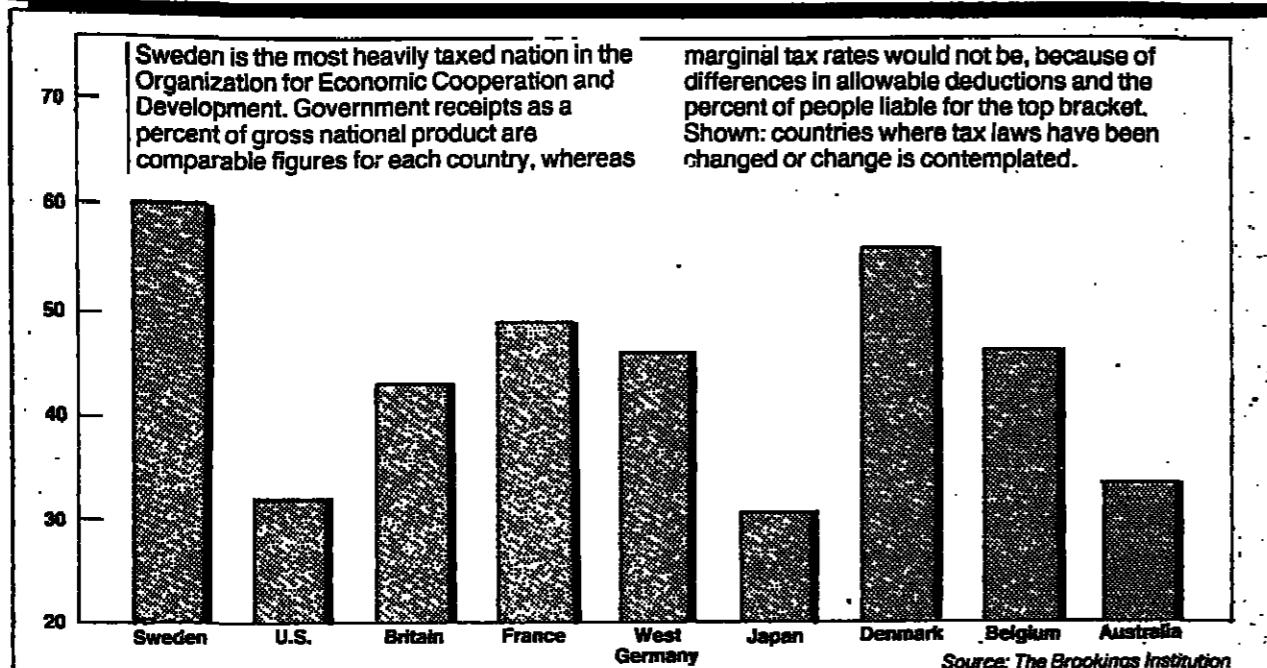
Westpac Banking Corporation

May, 1987

July 15, 1987

Overhauling Tax System ■ Fermenta Scandal

Current Government Receipts as a Percent of G.N.P.



Sweden is the most heavily taxed nation in the Organization for Economic Cooperation and Development. Government receipts as a percent of gross national product are comparable figures for each country, whereas marginal tax rates would not be, because of differences in allowable deductions and the percent of people liable for the top bracket. Shown: countries where tax laws have been changed or are contemplated.

Regulations Tightened on Bourse

By Juris Kaza

STOCKHOLM — It was called Europe's "scam of the decade" by Business Week, and many Swedish business commentators called it the worst business scandal to hit Sweden since World War II.

The antibiotics maker, Fermenta, Stockholm's "bourse rocket" of 1985, with forecasts of huge earnings and sales growth potential, proved to be a hollow sham built on misleading information, inflated statistics and, possibly, outright fraud.

Stockholders and creditors faced losses of several hundred million kronor, and the company's charismatic founder and former owner, Refaat el-Sayed, an Egyptian-born Swede, parted with Fermenta in disgrace, facing possible criminal charges, civil lawsuits and personal bankruptcy.

change is the nation's official regulator of securities markets, said that since Sweden adopted a ban on insider trading in 1985, there have been only four cases where the board initiated a criminal investigation.

"We had our first serious problems in 1983, with the merger of Fagersta and Kimevik," Mr. Boman said, referring to a steel company and a related investment company. He added, "There were some problems with information to the market, and also there were essentially two different offers made to two different categories of shareholder. The result was the exchange delisted Fagersta and Kimevik."

"It's the second tier of companies where the problems are, and those mainly trade among investors in Sweden. Fermenta had a very small ownership by Americans. But it does surprise me to see that the only person to be blamed is Refaat, and that all these smart businesses on his board didn't require documentation and accounting for his deals," he said.

The Stock Exchange Boom

(January 1986 = 100)



Source: Swedish Stock Exchange

necessary to legislate a flagging rule," Mr. Boman said.

Mr. Boman recalls that the stock exchange "started keeping an eye on Fermenta in the fall of 1985, when there were many rumors about them and allegations that Refaat was playing with the share price."

The exchange first suspended trading in Fermenta in February 1986 and ordered an outside audit on its 1985 annual report. There were further problems with the handling of corporate information during the spring of 1986, and in May, the exchange imposed the highest possible fine, 1.1 million kronor (\$175,000), on Fermenta. Fermenta was finally expelled from the exchange in January 1987.

Abroad, some analysts are a little skeptical of the effectiveness of Sweden's regulatory measures, but at the same time, they praise the behavior of those multinational corporations that draw strong foreign investor interest.

"The major companies conduct their business up front, and foreigners have great respect for them," said Gerald Nordberg, president of Rembecon, Nordberg, a New York securities brokerage specializing in Scandinavian shares.

"It's the second tier of companies where the problems are, and those mainly trade among investors in Sweden. Fermenta had a very small ownership by Americans. But it does surprise me to see that the only person to be blamed is Refaat, and that all these smart businesses on his board didn't require documentation and accounting for his deals," he said.

Debate Mirrors Global Trend

By Steve Lohr

New York Times Service

STOCKHOLM — The global push for cutting tax rates, spanning ideological boundaries, has come even to Sweden, home of the world's highest taxes.

A Swedish worker receiving wages of \$35,000 a year or more, for example, faces a stunning marginal, or peak, income tax rate of 76 percent because of the country's generous welfare state.

The high rates on comparatively modest salaries have made the game of avoiding taxes a national pastime, swelled the underground economy, worsened inflation and squelched incentives to work harder for more pay.

"The very high level of progressive taxation just doesn't work," said Kjell-Olof Feldt, the finance minister.

Earlier this year, Mr. Feldt proposed a sweeping overhaul that would lower income tax rates, reduce tax avoidance and broaden the tax base in Sweden.

Tax revision — corporate overhaul will be addressed later this year — is a highly sensitive political issue, especially for Mr. Feldt's Social Democratic Party. The Social Democrats, who have controlled the government for 49 of the last 55 years, have made high taxes a central part of their platform.

Tax reduction has always been the rallying cry of the non-Socialist opposition. So by calling for an overhaul, the Social Democrats risk leaving themselves open to charges, especially from their own left wing, of deserting their Socialist principles. The tax debate will be a central issue in next year's elections, but some overhaul of the system seems certain to be approved.

While the debate here, as elsewhere, is shaped by domestic politics, it also provides a magnified example of the forces behind the international tax-revision movement.

In addition to the United States, nations that have adopted or are considering tax overhauls include Britain, France, West Germany, Denmark, Belgium, Australia and New Zealand. The drift of the Swedish proposals — cutting rates and simplifying the tax system — mirrors the global trend.

Some nations may be acting, at least in part, out of fear that companies and skilled employees will relocate to places with lower taxes.

In Sweden's case, for instance, IKEA, the country's most rapidly expanding retailing chain, has moved its headquarters to Denmark for tax reasons, and a large community of wealthy Swedes lives in Britain. One of them is Erik Penser, one of the most successful and influential individual investors in Swedish corporations. Swedish tennis stars routinely move to Britain or Monte Carlo as soon as they begin to pile up large earnings on the international circuit.

But the impetus for tax revision in the industrial world is mainly a drive for efficiency. Ideology, to be sure, has played a role, especially in Britain and the United States, where the Thatcher and Reagan administrations view high taxes as an infringement on individual freedom and enterprise.

But Labor or Social Democratic governments in Australia and New Zealand, in addition to Sweden, have also embarked on tax revision.

Accordingly, many analysts have pointed to the tax movement as evidence of an international shift to the right in economic policy. That claim is debatable. Even in a Social Democratic country like Sweden, there is less concern today about income redistribution and more about efficiency.

Political leaders here say the focus on efficiency is not a departure from its long-held commitment to economic egalitarianism, enshrined in the welfare system, but is necessary to ensure that the nation can continue to pay for its generous social programs. So far, there is no serious talk of paring the welfare state.

The Social Democratic Party has to recognize that high taxes, which reduce efficiency and stim-

What Swedes Get for Their Taxes

The Swedish social welfare system has worked in a society of shared values, where it might not in a country where different groups have conflicting goals, says experts at the Brookings Institution, who have studied the Swedish economy. Some Swedish tax revenues, unlike many nations' welfare benefits, go to reward those who work.

Day Care

Parents must be registered as members of the work force in order to enroll their children in day care.

Subsidized Lunches

Employees may buy coupons for half their face value and redeem them for restaurant meals. Consequently, many Stockholm restaurants are open only at lunchtime.

Retirement Benefits

Work incentives are built into the Swedish equivalent of Social Security so that greater work results in greater retirement benefits.

Kjell-Olof Feldt

Kjell-Olof Feldt, Sweden's Finance Minister, who has proposed a major tax overhaul.

percent of Sweden's gross national product, and thereby return substantial funds to the taxed economy. In all, the total tax load on the economy of 52 percent of GNP is not likely to change much, if at all.

Mr. Feldt's proposal calls for reducing income tax rates to three levels: 60 percent, 45 percent and 33 percent. (Beginning Jan. 1, there will be two main tax brackets in the United States: 15 percent and 28 percent, although some taxpayers will pay 33 percent on part of their income.)

In addition, Mr. Feldt's plan would sharply cut back the general deductions for interest payments on personal loans, insurance fees and other expenditures. Curbing deductions would make up for some of the \$4 billion of revenue lost from reducing income tax rates.

Analysis here hope that lower rates will diminish underground activity, estimated at up to 20 percent of Sweden's gross national product, and thereby return substantial funds to the taxed economy. In all, the total tax load on the economy of 52 percent of GNP is not likely to change much, if at all.

Mr. Feldt's proposals will be debated in party conferences later this year and will be a focal point during the 1988 elections.

Moreover, a program to revise corporate taxes, expected to include a hefty cut in the nominal rate of 50 percent, will also be introduced later this year. If approved, overall tax revision would probably go into effect over the next two or three years.

Though details remain to be worked out, a sweeping tax package is all but assured.

"There is a majority in Sweden today, including major interest groups that would lose some of their special benefits, that understand we need tax reform," said Bengt Vesterberg, head of the

Liberal Party, a leading non-Socialist party.

The perceived need to rid national tax systems of decades of growth-inhibiting special deductions, allowances and loopholes is another common thread in the global tax-revision movement. Some economists suggest that tax systems have life cycles and what is occurring around the world today is the death of the postwar generation of tax structures.

Accordingly, the only means to tax rationalization becomes a drastic overhaul, instead of the piecemeal bartering among interest groups that led to the problem in the first place.

"Politically, you have to be brutal and have a clean sweep, much like in the United States," said Gunnar Eliasson, president of the Industrial Institute for Economic and Social Research, a private research group.

Sweden's combination of high income taxes and proliferation of deductions has made tax avoidance a cottage industry. A decade or so ago, sidestepping taxes was considered shady behavior.

"But today, how to avoid taxes is one of the most common subjects of social discussion at dinner parties or over drinks," said Nils Lundgren, senior economist at PKF Banken.

The inflation of the 1970s focused public attention on ways to avoid taxes because workers were bumped into higher and higher tax brackets. The high taxes, in turn, fueled further inflation. For example, if a company gives workers an increase in take-home wages, it has to pay out three or four times the amount because of the high taxes.

One result: Average wage settlements have increased by 8 percent to 9 percent annually in recent years, compared with annual advances of 1 percent to 3 percent in West Germany, whose companies often compete with Sweden's.

Still to come is the debate over corporate tax revision. One of the secrets of Sweden's strong economic performance in the post-war years has been the implicit deal struck between the Social Democrats and major corporations.

The stock market's "affairs" starting in the mid-1980s, have mainly been cases that raised ethical questions and dramatized a need for new rule-making. There have been very few instances of clearly irresponsible or criminal behavior.

Despite the Fermenta affair, observers in Sweden and abroad say that oversight and regulation of securities trading on the Stockholm Stock Exchange have kept satisfactory pace with the growth and internationalization of the market.

The stock market's "affairs" starting in the mid-1980s, have mainly been cases that raised ethical questions and dramatized a need for new rule-making. There have been very few instances of clearly irresponsible or criminal behavior.

The exchange itself can fine or delist companies under terms of its listing contracts, and it can cooperate with the Bank Inspection Board and prosecutors in bringing criminal charges against violators of the new insider trading laws, or in cases of fraud and misrepresentation.

It has, according to Mr. Boman, between five and 10 employees available for daily moni-

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The Stockholm Options Market, OM, provides trading with integrated clearing for stock, interest rate, and index (OMX) options, and index (OMX) forwards.

Trading rules and regulations have been developed by OM in cooperation with market participants and the Swedish Stock Exchange. The Bank Inspection is the regulatory authority which monitors the Stockholm Stock Exchange and OM.

Stockholm Options Market

Stock Options

Currently, OM trades call options on eleven underlying deliverable Swedish stocks.

Asira, Atlas Copco, unrestrict.

Boliden, Ericsson B, unrestrict.

Skandia unrestrict.

SEB unrestrict.

Volvo B, unrestrict.

Electrolux B, unrestrict.

Ericsson B, unrestrict.

Skf B, unrestrict.

Volvo B, unrestrict.

Pharmacia B

- Call options on 11 underlying Swedish stocks for delivery for foreign participants.
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Interest Rate Options

OM offers calls and puts on the Swedish five-year treasury bond.

Call and put options on the Swedish five-year treasury bond.

Maximum time to expiration: 6 months.

Exercise price in fixed interest rate intervals (approximately 4 percent).

Exercise price in fixed interest rate intervals (approximately 4 percent).

Exercise price in floating interest rate intervals (approximately 4 percent).

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Acquisitions Lift Sales and Output For Industries

By Juris Kaza

STOCKHOLM — A spate of recent international acquisitions by large Swedish corporations may seem like a new trend because of the publicity it has gotten, but buying market shares and a manufacturing base abroad has been a primary means of survival for Swedish industry in the past two decades.

In the span of a few months, Swedish Match bought up its main competitor and the world's second largest maker of matches, Wilkinson Sword, in Britain; Electrolux bought the white goods operations of Britain's Thorn EMI and Boliden, a mining and minerals group, purchased 11 international units of Alfa Chalmers of the United States.

These deals were announced even before others had faded from memory — Electrolux acquisitions of appliance makers White in the United States and Zanussi in Italy, as well as Volvo's joint ventures with General Motors in trucks and with Clark in construction and earth-moving equipment.

The acquisition of White, for about \$722 million, ranked high among the top 200 mergers by size in the United States.

In less spectacular moves, Atlas Copco has signed an agreement to acquire Chicago Pneumatic (CP) from Danaher Corp. of Washington, for \$85.5 million. With this, Atlas Copco becomes one of the largest manufacturers of pneumatically driven tools in the United States.

The latest round of acquisitions shows that at present, large Swedish corporations have plenty of cash to spend from the good earnings of the past few years, and Swedish managers are quick to take advantage of a weak dollar that makes U.S. acquisitions especially attractive. But these factors simply influence the timing of deals, not the underlying reasons for aggressive Swedish corporate expansion abroad.

Moreover, Swedish corporations continued to seek acquisition opportunities in Europe even with a weak dollar, making U.S.

companies appealing. Besides the British companies purchased by Swedish Match and Electrolux, AGA, the Swedish-based industrial gas company, is making a \$55-million-franc (\$97-million) bid for the French gas company Dufour et Igon.

Ericsson, the telecommunications and office automation group, recently was awarded the right to buy 20 percent of Compagnie Générale de Construction (CGCT), a state-owned French telecommunications group that is being privatized.

"The technology today demands larger and larger production units, so one has to turn abroad for markets to support large production volumes," said Andrejs Cakste, group controller at Swedish Match, who recently moved from a similar position at Electrolux.

Both companies produce "mature" products and have expanded domestically and abroad by acquiring and, if need be, restructuring and integrating strategically attractive companies.

Björn Rosengren, chief economist of Gotabanken, Sweden's fourth largest commercial bank, noted that "Sweden is the country that, in relation to its population, has the largest direct investments abroad of any country in the world."

Foreign sales ratios of 60 percent or 70 percent of total sales or more are not uncommon for large Swedish companies, with some, such as the pharmaceutical and biotechnology group Pharmacia, selling around 90 percent outside Sweden.

The bank economist added that "even if these last acquisitions seemed spectacular, it is hardly a departure from earlier policy; this is a natural long-term development for Swedish industry."

Electrolux made its first acquisitions on the Swedish market, and Swedish Match did the same in restructuring the door industry in order to get a large enough market share to support efficient production," Mr. Cakste said.

"And when it comes to exports in mature industries, you need a base abroad with brand names, a sales organization, and established market shares."



Volvo assembly plant in Kalmar.

Large Swedish corporations have plenty of cash to spend from the good earnings of the past few years.

In floor coverings, a major product area for the Tarkett Group within Swedish Match, the company has acquired Pegulan, a well-established floor-covering maker in West Germany. At Electrolux, officials are often proud that their name is unknown abroad, because they sell under some of the best-known names on local markets, such as Tappan in the United States.

Mergers within mature manufacturing industries and across national borders also make it possible to expand your purchasing base and increase your negotiating power, say, with suppliers on the Continent," said Mr. Cakste.

He added that consumer-related industries are not the only mature businesses to benefit from international expansion.

"Look at how Esab, the welding group, has grown," he remarked.

Analysts say that, because of the weak dollar and the relative

importance of the U.S. market to Swedish corporations, there are golden acquisition opportunities in North America.

"Even if managers have been around for 20 years, they've never seen the possibility to acquire U.S. facilities on terms available today," said Gerald Nordberg, president of Reinheimer, Nordberg, a New York securities brokerage that specializes in Scandinavian shares.

So many Swedish corporations have made acquisitions of both large and small foreign units that what is remarkable to analysts are those few multinationals that seem poised for acquisitions but have yet to strike.

"When I think about these mergers, I wonder about the companies who could sustain a major acquisition but haven't done so," said Mr. Nordberg in New York.

"One that comes to mind, in fact,

a prime candidate, is Asea."

"The drop in oil prices is not there anymore and prices aren't falling," Mr. Fromlet said.

"With the strong yen and D-mark, there will be price increases or imports from Japan and West Germany. Our domestic price freeze will be lifted during the second half. A lot of price rises swept under the rug will be swept back out," he said. He was referring to the price freeze imposed by the government earlier this spring.

He added, "Also, there are a number of state-mandated price rises, for instance, the agreement [with Swedish farmers] to increase prices of basic foodstuffs, the higher excise tax on new cars, and so on."

Mr. Rosengren of Gotabanken commented that "we have a remarkable ability to end up with the same cost development every year. The contractual increases have been shrinking, but at the same time, wage drift is increasing."

Wage drift comprises both wage raises offered voluntarily by companies to attract workers and automatic increases triggered as part of the "solidarity" wage structure when voluntary raises in one sector create inequalities with the wages of workers doing similar work in other industries.

"This year it looks like we will have a rise in employment in the private sector; in effect, we are seeing the best of the labor market now," said Mr. Lundgren. "but that means for a

large part of private industry, you will get wage drift."

During the spring, unemployment has hovered around 2.2 percent. Mr. Lundgren said that the underlying inflation rate, based on domestic labor and other cost increases, "is 5.5 to 6 percent, and we are moving up to that, although the December '86 to December '87 rate will not be more than 4.5 to 5 percent, reflecting the oil price dip."

Mr. Fromlet said that "most of the factors that affect inflation are negative" and added that Mr. Carlsson's government isn't likely to be able to push any effective fiscal austerity measures through the Riksdag, parliament, leaving management of the economy to the Bank of Sweden by monetary and interest rate policy.

Here the main problem is that we have a government that will find it difficult to drive through a fiscal policy that cuts consumption," the Swedbank economist remarked. "The number one way to cut consumption would be to raise the value-added tax, but we don't have a split VAT for food and other goods, so the Communists will oppose that. You could restrict tax reductions related to credit, or set up some kind of forced savings, but with an election year coming in 1988, what political party wants to support austerity?"

Mr. Rosengren of Gotabanken added, "In terms of the technicalities of parliamentary voting, this is a weak government. We should have had austerity measures for the sake of

our foreign balance, but there is no real majority in the Riksdag, and there's an election next year."

Rising U.S. interest rates may push up interest levels in Sweden regardless of what the central bank chooses to do.

"I cannot see any way out for the U.S. except rising interest rates and rising inflation," said Mr. Lundgren.

Swedbank's most recent economic forecast speaks of "continued high Swedish interest rates" based on the nation's weak external accounts and rising rates in the United States.

The weak dollar is regarded as a mixed blessing for the Swedish economy, where many industries rank the United States among their largest export markets.

On the one hand, the krona has not appreciated as much against the dollar as the Deutsche mark and yen, leaving Sweden ahead of its major competitors. At the same time, the weaker dollar has considerably cut debt service costs. Swedish multinationals with manufacturing in the United States and using the United States as an export platform are benefiting from the dollar's weakness.

"If the dollar goes down, with all other business as usual, we will cope with that, though the profits of Saab and Volvo will go down," Mr. Lundgren said.

JURIS KAZA, a Stockholm-based journalist, contributes regularly to the International Herald Tribune's business pages.

Consumer Boom Masks Problems

Continued from page 7

ity in the Riksdag, or parliament, and has come under pressure from both the far left and the political center, preventing it from taking strong austerity measures.

In 1988, the Social Democrats face an election without the controversial but charismatic Olof Palme, who was assassinated in February 1986.

"The main problem is our major dependence on foreign markets and the current account," said Björn Rosengren, chief economist at Gotabanken (PKBanken), the state-owned commercial bank. "Without the oil price drop, we would have had a 15 billion kronor current account deficit last year." Sweden's current account posted a deficit of 6.7 billion kronor in 1986.

"What we have now is a bright picture if the outside world goes on as it has to now," commented Nils Lundgren, chief economist at Post-och Kreditbanken (PKBanken), the state-owned commercial bank. "The best signals in the economy have to do with the competitiveness and profitability of our export industries."

But even the relatively optimistic Mr. Lundgren admits that "we have this tendency toward weaker external accounts, which reflects the rise in private consumption and, in the longer run, the increase in wages and prices."

In a recent forecast, PKBanken said it expects Sweden's current account surplus to shrink to 1.5 billion kronor in 1988 from a projected 3.9 billion kronor in 1987.

Hubert Fromlet, chief economist at Swedbank, the commercial bank owned by Sweden's savings banks, said the nation's main problem will be "inflation, for several reasons."

"The drop in oil prices is not there anymore and prices aren't falling," Mr. Fromlet said. "With the strong yen and D-mark, there will be price increases or imports from Japan and West Germany. Our domestic price freeze will be lifted during the second half. A lot of price rises swept under the rug will be swept back out," he said. He was referring to the price freeze imposed by the government earlier this spring.

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New Rapport With U.S.

Continued from page 7

Carlsson has plenty of reasons for establishing a new rapport with the United States.

Big business has had a bad time in lately in terms of its image abroad.

First, the badly bungled hunt for Mr. Palme's assassin cast severe doubts on Swedish efficiency.

Then came the revelations of shady dealings within the pharmaceutical company Fermenta that eventually led to the removal of Refar el-Sayed, the firm's Egyptian-born managing director.

Mr. Sayed had been accused of dragging his heels in the South Africa sanctions issue, for example, earning him the ire of his party's left wing and some members of Sweden's powerful trade union movement but winning him the respect of the business community.

U.S. Secretary of State George P. Shultz, who met Mr. Carlsson following Mr. Palme's funeral in March 1986, was reported to have been impressed by his modest demeanor and restrained style of diplomacy.

The ground work for the Washington visit

was then carefully laid in a series of meetings between Mr. Carlsson and his staff and Gregory J. Newell, the U.S. ambassador to Sweden.

Mr. Newell has insisted that he does not expect Sweden to necessarily hold the same opinions as the United States on world issues.

But he has asked for "greater understanding" of the U.S. position, something he would have been unlikely to have achieved with Mr. Palme.

Beyond diplomatic considerations, Mr.

CHRIS MOSEY is a Stockholm-based correspondent for *The Observer of London*.

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SKANSKA 1986:

Consolidated Balance Sheet, December 31, 1986.
In millions of Swedish Kronor (SEK M).
Exchange rate: SEK 1,000 = USD 158.19 (April, -87).

Assets	Liabilities and shareholders' equity
Bank balances	4,720
Receivables	1,414
Investment and development properties	6,982
	12,644
Other receivables	4,248
Shares and participations	566
Machinery and equipment	961
Fixed-asset properties	1,085
	13,082
Total	3,433
	8,153
Long-term liabilities	4,292
Unpaid reserves	4,736
Capital stock	617
Reserves	1,013
Net profit for the year	485
Total	19,296
	19,296

Consolidated revenues 1986 – SEK 16,103 M

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July 1987

Women Round Joe

By Mike Zwerin
International Herald Tribune

PARIS — Touring Europe earlier this year, Joe Henderson found that he was front page news in Italy, Spanish journalists shoved microphones in front of his mouth, and he was asked for an autograph by a businessman on a flight from Belgrade to Zagreb.

His new female rhythm section may have something to do with it, though he insists that "these ladies are doing precisely what they should be doing right now. They're totally qualified for the job. They're here because they're talented musicians, not women. I'm not trying to make a socio-political statement and one of these days I hope we reach the point where we won't see these things as important. I get asked about it about 10 times a day."

Three attractive young women in a rhythm section might bear superficial resemblance to a gimmick, though they are not necessarily an advantage in the macho world of jazz (three white women at that). But Joanne Brackeen had been his pianist for 18 years and the bassist Kim Wilde was with him for two, so when a Dutch agent, Wim Wigt, suggested adding a woman drummer, it just seemed logical. Anyway, he is not in need of gimmicks.

Conducting a clinic in San Jose, California, seven years ago, he was startled to hear a 16-year-old girl named Sylvia Cuencia kicking a big band brass section very hard. Henderson, who lives in San Francisco, tried unsuccessfully to find her for several jobs. Good women drummers are rare and he feels lucky to have her with him now. He calls his current pianist, Irene Rosas, "probably the oldest 24-year-old I've ever met. She's lyrical beyond her years. It's unusual for musicians of her generation to have so much depth." The bassist Marlene Rosenberg joined the band 10 weeks ago when Kim Wilde took maternity leave.

There is no "best," but if forced to choose one tenor saxophone player, most jazz musicians these days would name Joe Henderson. He finally emerged from the shadow of Sonny Rollins in 1985, when



Joe Henderson with (from left) Marlene Rosenberg, Sylvia Cuencia and Irene Rosas.

three nights at the Village Vanguard — with Ron Carter, bass, and Al Foster, drums — were recorded by Blue Note Records and released as "State of the Tenor."

The myth of the poor, alienated jazz musician like Dale Turner in "Round Midnight" is only part of the picture. "There's this idea around that somehow you've got to suffer and do things you shouldn't do to make it in this business," Henderson says. "I guess that image is more interesting for a movie, but I started playing professionally when I was in high school. I played jazz in college [Wayne State, in Detroit] and I worked right away when I got to New York."

The trumpeter Kenny Dorham ("my father") introduced him to Blue Note, for which he made dozens of albums in the '60s — including Lee Morgan's "Sidewinder" and Horace Silver's "Song for My Father." Always trenchant, he honed the space between Rollins and John Coltrane into a space of his own. "I haven't wasted my money or my health and I've made a living playing jazz music all the way," he says with pride.

His mother had her first child at

the age of 15 and he is convinced that she wanted to be involved in a family situation. This lady's plan was to be the mother of a large family and she was quite good at it. I had nine brothers and five sisters." He stopped to smile. "So I had the advantage of being brought up [in Lima, Ohio] by somebody who was fulfilled doing it, who enjoyed it. Imagine how different it would have been if she was frustrated, if she'd had other plans for her life."

"I was third from youngest; when I picked up the saxophone at the age of 9, my mother was in her 50s. She was already familiar with rhythm and blues and opera through my older brothers and sisters. Listening to my record collection, she got to the point where she could differentiate between Lester Young and Charlie Parker. We would listen to Stravinsky together. I was able to help her increase her already vast ability to appreciate music. It's a great feeling to be able to give something back to a woman who gave me so much."

Joe Henderson: Magnetic Terrace, 12, rue de la Cassonne, 1st arrondissement; through June 6.

Music's Growth Stock: Baroque Revival Takes Off

By David Stevens

International Herald Tribune

PARIS — After a season in which the Paris Opera's one clear winner has been Lully's "Atys," and when the Théâtre Municipal de Paris/Châtelet has just done brisk business with a three-week run of works, mostly operatic or vocal, by Peri, Lully, Charpentier, Purcell, Handel, the elder Scarlatti and Albinoni, along with Bach and Vivaldi, it is probably time to concede that the Baroque revival is no longer just a revival but has settled in as part of the current musical landscape.

All the more so when the just-ended Châtelet Baroque weeks brought together such advocates of original instruments and period authenticity as William Christie, Trevor Pinnock, Jean-Claude Malgoire, Michel Amoric, Alan Curtis, John Eliot Gardiner, René Clemencic, Sigiswald Kuijken, Philippe Herreweghe and Christopher Hogwood, all artists who — whatever their differences may be — share a familiarity with the musical lingua franca of the 17th century and, by extension, the 18th as well.

Indeed, one of the most convincing performances at the Châtelet was not Baroque at all, except by extension. The concert performance of Gluck's "Armide" (1777)

under the musical direction of Curtis came under the commemorative umbrella of the 200th anniversary of the composer's death. Its justification in a Baroque mini-festival might be that Gluck was in the business of revitalizing the tragicomédie of a century earlier, and here he was setting a libretto originally written for Lully by Philippe Quinault.

It is a kind of hybrid, a 17th-century skeleton with 18th-century flesh and blood, and although it is far less often heard than Gluck's better known late works, the composer thought it might well be best of his works written for Paris. Curtis, with an impressive group of soloists, the Tafelmusik Baroque Orchestra of Toronto and the Ensemble Vocal of the Chapelle Royal of Paris, showed why.

Unlike Gluck's most familiar late works, marked mainly by nobility of style and classical restraint, "Armide" is about sexual passion and its psychological ravages. The story is from Tasso's "Gerusalemme Liberata," a heavily worked mine for librettos in the 17th century, and tells of the magician Armide and her frustrated attempt to enchant the Christian knight Renaud. The real motor of the drama, however, is Armide's conflict between a ferocious sense

of independence and an obsessive passion for the knight.

Or, as Curtis aptly paraphrased it, Armide is a professional woman of an extreme kind, touchy about her liberty but in love with a guy who spends most of his time at the office, "so it's what time call relevant." And within his deceptively simple style, Gluck dots all

the emotional I's and crosses all the psychological T's with music that often contradicts the literal sense of the words to penetrate the real state of the heroine's turbulent mind.

Sheri Greenawald, stopping in short notice for the advertised Montserrat Caballé, seized this juicy role with both hands, impressive both in vocal and dramatic range, and she won an real ovation for the colossal aria she aria that closes the opera. The tenor Anthony Rolfe-Johnson was the most stylishly assured member of the cast, with splendid diction, but unfortunately Gluck made Renaud a pale

Sisterly Passion, and an Ineffable 'Jeeves'

By Sheridan Morley

International Herald Tribune

LONDON — It was in 1933 that two French housemaids in Le Mans killed their mistress and her daughter, a gruesome double murder that was to give Jean Genet his most celebrated play, "The Maids." What we have now, at the Hampstead Theatre, is Wendy Kesselman's "My Sister Is This House," which also deals with curious domestic slaughter, and

THE LONDON STAGE

won the Playbill award when it was first seen a few years ago at the Louisville festival in Kentucky.

For this very welcome British premiere, Nancy Meckler's production brilliantly sets up the overpowering claustrophobia of an upstairs-downstairs household where the owner ritually puts on a white glove to check the undersides of armchairs for dust, and where life is ruled by the constant ringing of bells. Where Genet's play was essentially a sexual fantasy, Kesselman's version is more in the nature of a documentary: we are introduced to Christine and her younger sister Lea, convent girls already accustomed to Dickensian living conditions and here brought together in the attic of the same town house, already heavy with gloom and repression, to wait on an overbearing mother and her uneasy daughter whose principal entertainment and excitement is the weekly outing to inspect their neighbors' hats at Sunday Mass.

He stopped to smile. "So I had the advantage of being brought up [in Lima, Ohio] by somebody who was fulfilled doing it, who enjoyed it. Imagine how different it would have been if she was frustrated, if she'd had other plans for her life."

"I was third from youngest; when I picked up the saxophone at the age of 9, my mother was in her 50s. She was already familiar with rhythm and blues and opera through my older brothers and sisters. Listening to my record collection, she got to the point where she could differentiate between Lester Young and Charlie Parker. We would listen to Stravinsky together. I was able to help her increase her already vast ability to appreciate music. It's a great feeling to be able to give something back to a woman who gave me so much."

Joe Henderson: Magnetic Terrace, 12, rue de la Cassonne, 1st arrondissement; through June 6.

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there may be better performances in town, but as a quartet these add up to one of the most powerful and ultimately shocking evenings that Hampstead has lately given us.

Almost a decade after it began life as a luncheon entertainment above a pub in Putney, Edward Duke's "Jeeves Takes Charge" is back in London (at Wyndham's) having in the meantime played its way from Toronto to Taiwan. Not to be confused with the catastrophic Alan Ayckbourn/Andrew Lloyd Webber musical derived from the same sources, this is a one-man show based on the classic stories of P.G. Wodehouse. Though it seems to have broadened somewhat on its travels, it remains a considerable delight.

Whether playing the ineffable butler Jeeves, his inane employer Bertie Wooster, or any other of the 10 characters from dragon aunts to giggling schoolgirls who crop up along the way, Duke never loses sight of the fact that this is in the nature of an illustrated lecture where the language is all. At the Drones club we meet cardboard-cutout suits who have been painted into their suits while forgetting to say when, and others who look as though they have been stuffed in a hurry by incompetent taxidermists.

Later, across silences you could

have dug bits out of with a spoon,

social embarrassments are catalogued and recalled in all their grousing detail before we get to a band of marauding aunts wandering hither and thither, scattering desolation around the country side.

There's the aunt who wears barbs wire next to the skin, the one whom God forgot, the one who kills rats with her teeth and the aunt who calls to other aunts like a mastodon bellowing across primeval swamps.

Duke has perfected not only

them but also the characteristic Wooster grimace of frozen terror as he is required by yet another aunt to tap dance while singing "Song Boy" at a charity site. Although his Jeeves has not yet acquired the physical presence and vocal gravity that can perhaps come only with late middle age, as a lightning guide to the comic world of Wodehouse this one could hardly be bettered.

The story of the two cousins, Palamon and Arane, forced to mortal combat by their rivalry in love, is often submerged in a more psychologically intriguing account of what their love does to the women who get caught up in it. In the end although neither Gerard Murphy nor Hugh Quarshie can, through any failure of their own, persuade us that it much matters if either of them survives the final battle, Amanda Harris as the upmarket Emilia and above all Imogen Stubbs as the jailer's daughter give performances of haunting and luminous strength.



Edward Duke (left) in "Jeeves Takes Charge."

A lightning guide to the lost, comic world of Wodehouse that could hardly be bettered.

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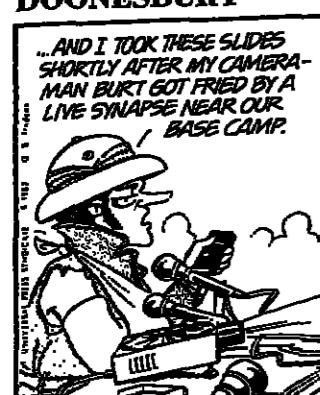
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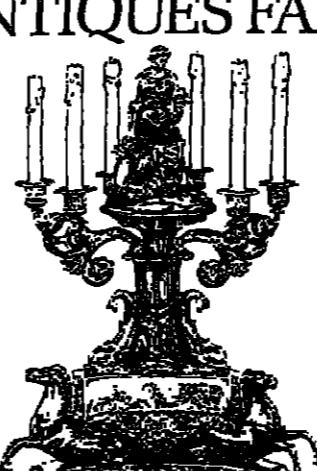
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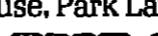
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SPORTS

Brazilian Apprentices Cutting an Impressive Swath

International Herald Tribune
LONDON — Get out those gold-tinted specs. If you have none, feel free to look through mine. We're back on the Brazilian soccer trail and, with customary bias towards artistry in yellow jerseys, I have good news.

Allowing heart and past love affairs to rule, I recently suggested we see how Brazil's apprentices perform before doubling their pedigree. *Ermek!*

The team of seven untired internationals needed no protective suit. Drawing against England, losing to the Republic of Ireland, beating Scotland, Finland and Israel, the new Brazilians unveiled *jogo bonito* — the pretty game.

"We might be watching the skeleton of the finished product for the 1990 World Cup," commented Terry Butcher, England's center-back.

Butcher singled out Mirandinha, the diminutive center-forward he had tried to subdue. "I'm having trouble saying his name, let alone get hold of him," admitted the towering Englishman.

"He's so tricky you feel you should play him tight. But he draws you in and spins you. He's not the only one. It's a pleasure being on the same field as such skilled players."

Mirandinha has baffled even Brazilians. He's 26, older but not wiser than the emerging starlets. A mutant of restless nature and greedy reputation. Mirandinha flirted with four clubs until scoring 70 times for Palmeiras in the past year.

Given Brazil's paucity of strikers, he shot onto the Olympic team last month and, with Careca (the five-goal World Cup star) declining to tour, Mirandinha gained sudden promotion to the senior national squad.

Like Butcher, I'm excited and bemused by Francisco Ermelino Lima da Silva (the sobriquet Mirandinha comes from of his similarity to the 1974 World Cup center-forward).

Slippery as an electric eel, Mirandinha. But does he deliberately slip the ball through a marker's legs, or is it pure impulse?

Has he extrasensory perception, pouncing as he did when a goalkeeper of Peter Shilton's stature let the ball squirm out of his gloves?

Days later, in Dublin we saw how exasperating Mirandinha can be as Müller and Silas and Douglas, all emerging Brazilians, worked with spirit to retrieve a losing situation only for Mirandinha to dribble into trouble again and again.

Carlos Alberto Silva, the novice team manager, took Mirandinha off. Silva appears not to look for sweat off the brow, but even he could not ignore selfishness destructive to teamwork.

The short, sharp shock had the desired effect. Three days later, Mirandinha turned creator in Scotland. Receiving the ball near the halfway line, Mirandinha unleashed a swirling pass from the outer rim of his right boot.

Rarely do we recall that a man of British stock, Charles Miller, introduced Brazilians to soccer.

ROB HUGHES

England and Scotland seldom really examined Brazil's defense, seldom took advantage of right back Josimar, whose glorious forward runs are betrayed by his defensive vulnerability.

Brazil's faith in Josimar is good for the game. Errata — even dirty — his tackles may be, but when did you last see a fullback flick the ball onto his chest, let it drop and then volley overhead clearances as Josimar does?

Porto, like Brazil, built its success on risk, on moments of improvised beauty worth decades of tactical efficiency. Indeed, the Portuguese have an even more inspirational forte.

Careca will soon want his No. 9 shirt off Mirandinha's back. Juary, a striker whose touch-and-go skill illuminated Porto's European Cup triumph in Vienna, might also change.

When did you see a fullback show the ball to his opponent and then drag it back with the sole of his foot, as Josimar did at Wembley?

Yet Brazil's promise against England, its fluency while outplaying

ward, Paulo Futre, whose gifts remind us that his nation gave Brazil both language and movement.

A "Brazilian" from cold climates!

Dublin provided a diabolical pitch and an ill wind that chilled Latin artistry. Such was the cold that 16 South American broadcasters, bellowing their volatile cacophony to the world's premier soccer nation, were swathed in scarves and blankets.

Ireland, mauled by 7-0 when last it met Brazil, won deservedly, on a goal from Liam Brady. Brady is a fox of a player, a Dubliner whose midfield skills have been paraded from Arsenal to Italy and back to West Ham.

At 31, he did his share of hustling, which Ireland used to deprive Brazil of the ball.

But Brady has an extra dimension. Seventeen meters (55 feet) from the Brazilian net, he was poised to chip the ball right-footed over goalkeeper Carlos. Then, with the defense mesmerized — and with the time given only to maestros — Brady subtly shifted balance and struck a left-footer low inside the opposite post.

Jogo bonito? Anytime, anywhere.



Dave Sheldene/The Associated Press

Center-forward Mirandinha, averting Chris Waddle's tackle during Brazil's draw with England.

Lendl, Evert, Navratilova Gain Semifinals

The Associated Press

PARIS — Defending champions Ivan Lendl and Chris Evert swept into the semifinals of the French Open tennis tournament here Tuesday. Also advancing was Martina Navratilova, the No. 1 women's seed, to set up another meeting in one of the sport's longest-running rivalries.

Losing only three of the last 15 games, Lendl beat Andres Gomez 6-2, 6-2.

On Thursday, Evert will face Navratilova, who breezed past West German Claudia Kohde-Kilsch, 6-1, 6-2. It will be the 72nd meeting between the two, but their first in a semifinal since the 1981 U.S. Open. The day's other semi will pit 17-year-olds Steffi Graf and Gabriela Sabatini, each going for her first major title.

Lendl's semifinal opponent on Friday will be one of two Czechoslovakians. Miloslav Mečíř, the No. 5 seed, had a 4-2 opening-set lead against unseeded Karel Nováček when rain suspended the match. They will continue at the start of play Wednesday, and will be followed by the other two men's quarterfinals — Yannick Noah vs. Wimander and Jimmy Connors vs. Boris Becker.



Top-seed Martina Navratilova: Easy passage to the semifinals.

Lendl had early problems against Gomez, whom he was meeting for the third time in the quarters. Here, he had 11 break points in Gomez's first six service games but, as in 1984 and last year, faded in the latter part of the match. "He can be like a madman at the start, but the chances are he's the one who'll tire out," said Lendl after beating the No. 10 seed for the 13th straight time. "Today was

a carbon copy of our previous matches here."

Saying that the components of his game are as good as Lendl's, Gomez noted a fundamental difference between himself and the world's top-ranked player. "He's in better shape; he's an athlete, and I'm not," said Gomez. "He's fitter, and he takes advantage of the situation. This is the hardest tournament to win because fitness counts as much as tennis."

Evert, the No. 3 seed, dropped only eight points after the 14th-seeded Reggi had won the first two games of the second set.

Taking a 4-0 lead in both sets and losing her serve only once, Navratilova had an easy time in whipping No. 8 Kohde-Kilsch. "Today's practice was the best I've played this year.... The ball seemed this big," said Navratilova, holding her hands wide apart.

Evert and Navratilova, who have dominated the women's game for a decade, have met only four times in a grand-slam semifinal; most of their clashes have been for titles.

"I can't believe the match is in the semis," Navratilova said. "It will be harder for both of us. One has to win and play another game, and one has to lose."

"I'll go in and hope to hit well — hard and deep," said Evert. "I hope to serve well. All these things are important against her. I'm in good shape physically."

French Back Sets Mark for Rugby Points

The Associated Press

AUCKLAND, New Zealand — Fullback Didier Camberabero scored a world-record 30 points as France thrashed Zimbabwe, 70-12, to qualify for the quarterfinals of the World Cup rugby tournament here Tuesday.

Camberabero scored three tries (12 points) and kicked nine conversions (18).

The test-match record of 27 points has been set two hours earlier by Scotland's Gavin Hastings in a 55-28 rout of Romania. The record before Tuesday had been 26, set by New Zealanders Allan Hewson (against Australia in 1982) and Grant Fox (against Fiji last week).

Injuries cut Zimbabwe down to 14 men for most of the second half as the French piled on the tries.

France and Scotland tied on points in their pool, but France took first place because it had scored more tries than the teams' 20-20 draw last week.

France will play Fiji in a quarterfinal match in Auckland on Sunday; Scotland will meet New Zealand in Christchurch Saturday.

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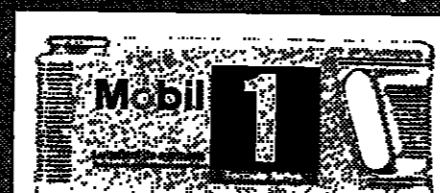
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l'équipe Williams/Honda d'être sacrée championne du monde des constructeurs 1986 en remportant 9 victoires éclatantes.

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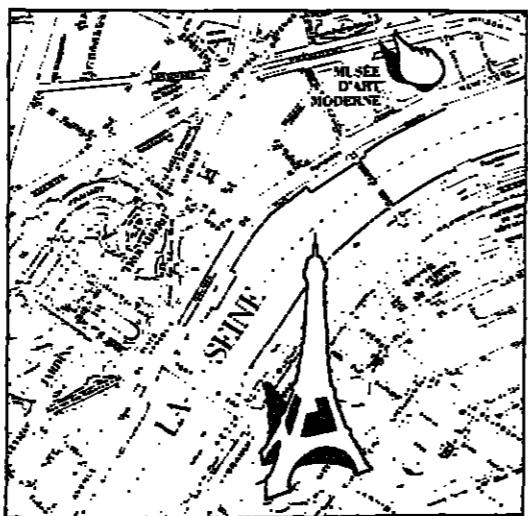
Bravo Mobil, devant les Williams!

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THE PARIS LIBERTY FLAME WILL STAND ON THE BANKS OF THE SEINE.

We are pleased to announce that the City of Paris authorities have designated an outstanding site for the Paris Liberty Flame monument on the Avenue de New York along the Right Bank of the Seine, near the Place de l'Alma next to the *Musée d'Art Moderne* — a central location which means that this monument to Franco-American friendship will be seen every day by thousands of Parisians and visitors to the city.



The Paris Liberty Flame is the exact duplicate of the golden flame atop the outstretched arm of the Statue of Liberty in New York harbor. It was crafted in the United States by *Les Métalliers Champenois*, the same group of outstanding French artists who worked on the New York statue, using the same molds they created for that project.

This monument perpetuates a tradition started over one hundred years ago, when over 100,000 French citizens contributed to the financing of the original Statue of Liberty. A few years later, a group

of Americans then living in France gave as a gift to the French people the reduced-size replica of that Statue which today stands on the Ile aux Cygnes, just a mile downstream from the new Liberty Flame site.

The International Herald Tribune has decided to mark the conjunction of its own centennial with that of the Statue of Liberty by sponsoring an international fundraising appeal to bring the Liberty Flame to Paris.

It is estimated this project will cost about \$400,000. Working together with our co-sponsors, Kevin MacCarthy Associates, an international law firm located in New York City, the IHT has established a non-profit corporation, the *France-America Liberty Fund, Inc.*, as well as a French "association", the *France-America Liberty Fund*, to which tax-deductible contributions can be made in both countries.

The appeal was launched in October of 1986. Over \$200,000 has been raised from contributions in all parts of the world — more than half of the goal.

Founded in Paris on October 4, 1887, the International Herald Tribune is the oldest American newspaper published abroad. Ever mindful of its own deep Paris roots and of the warm relations it has enjoyed throughout the century with the people of France (including many of its own employees, readers and advertisers), the International Herald Tribune is proud to take the lead role in this undertaking.

In doing so, the IHT echoes the role played 100 years ago by Joseph Pulitzer's New York World, when that newspaper sponsored the public fundraising effort for

the Statue of Liberty's monumental pedestal — and thus made it possible to erect the original Statue.

In an age which is too often characterized by rapid swings in popular emotion on both sides of the Atlantic, we feel it is important to reaffirm two truths which have stood the test of time: the fundamental value of Liberty in our way of life and government, and the enduring strength of Franco-American friendship.

The France-America Liberty Fund welcomes contributions of any size and will acknowledge all gifts (unless otherwise instructed by the donors) by publishing periodic announcements listing the names of the contributors in the International Herald Tribune. The names of major donors will be inscribed on a plaque at the base of the monument.

If you wish to make a contribution, you may do so by forwarding the form below.

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WEDNESDAY, JUNE 3, 1987

MADISON AVENUE

McCall's, Pinched for Ads, Chucks Out the Rate Card

By PHILIP H. DOUGHERTY

NEW YORK — McCall's, which is part of the U.S. magazine category most affected by competition from television, is adopting the advertising sales techniques used by broadcasters. McCall's has said it will abandon the traditional rate-card system for setting advertising prices and will negotiate with advertisers instead. It is the first important national magazine to announce such a policy.

The magazine is one of the "seven sisters" of the women's service field, a group that has had almost no growth in advertising in the last year. These magazines depend heavily on packaged goods advertisers, who are also the biggest purchasers of network television time.

Major advertisers, accustomed to using their clout to get the best deals from broadcasters, are trying to wrest concessions from the print media in a growing trend toward "creative" use of rate cards. Dale Lang, chairman of the Working Woman-McCall's Group, said that in the future the McCall's rate card would list only the one-time page rates.

Rate cards traditionally have listed various combinations of ad sizes, pages and related discounts that could be used as a basis to negotiate any situation not covered by the rate card. Under the system, the negotiations will be wide open: They will concern how much actual cash will be put up for the ads, where the ads are placed in the magazine and how much free promotion or marketing assistance the magazine will give the advertiser.

Mr. Lang, who said he is a great believer in the sanctity of rate cards, believes that negotiation can be restricted to the women's service magazines, where competitive pressures are the most intense. McCall's six "sisters" are Good Housekeeping and Redbook, both owned by Hearst Magazines; The Ladies' Home Journal and Better Homes and Gardens, owned by the Meredith Corp.; Family Circle, one of The New York Times Magazine Group; and Woman's Day, owned by CBS Magazines.

McCALL'S, 111 years old, was the first woman's service magazine and was long the leader of the pack. It has not led in the crucial category of advertising pages since 1961, however, and in 1986, it was at the bottom of that list with fewer than 1,200 ad pages. Good Housekeeping led the field with almost 2,000.

"If we were the leader, we would be setting a different policy," Mr. Lang said. "What we don't want to do is publish a rate card and then give different rates to different advertisers. We want to end the hypocrisy."

Jack Rehm, executive vice president of Meredith, called the policy "the most radical approach I'd ever heard of." Noting that current practices were "eroding publishers' margins," Mr. Rehm said, "If it brings some sanity to the chaos that has developed in our group in the last couple of years, I will applaud it."

Peter G. Diamond, president of CBS Magazines, called Mr. Lang's announcement "a bold move." He added, "Very strong magazines don't negotiate. Very strong clients do. The weak are always in a negotiating posture, and now that's rampant throughout the industry."

William T. Kerr, president of the Times Magazine Group, is tickling with the Family Circle rate card. "We believe," he said, "that advertising is more than a commodity based simply on price negotiation."

* * * * *

In its first major acquisition, Greycom, the public relations arm of Grey Advertising, has bought 65 percent of Sterling Public Relations of London. Sterling will retain its name and management, but Harriet Mouchly-Weiss, president of the Greycom international division, and Roger Edwards, chairman of Grey in Britain, will join its board. John Brill, chairman of Sterling, will join Grey's operations group in Britain.

* Azorin & Davis of New York and Dugan, Valva Associates

See ADS, Page 17

Currency Rates

June 2		
U.S. Dollars	£	D.M.
1.244	1.222	1.212
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1.372	1.350	1.340
1.373	1.351	1.341
1.374	1.352	1.342
1.375	1.353	1.343
1.376	1.354	1.344
1.377	1.355	1.345
1.378	1.356	1.346
1.379	1.357	1.347
1.380	1.358	1.348
1.381	1.359	1.349
1.382	1.360	1.350
1.383	1.361	1.351
1.384	1.362	1.352
1.385	1.363	1.353
1.386	1.364	1.354
1.387	1.365	1.355
1.388	1.366	1.356
1.389	1.367	1.357
1.390	1.368	1.358
1.391	1.369	1.359
1.392	1.370	1.360
1.393	1.371	1.361
1.394	1.372	1.362
1.395	1.373	1.363
1.396	1.374	1.364
1.397	1.375	1.365
1.398	1.376	1.366
1.399	1.377	1.367
1.400	1.378	1.368
1.401	1.379	1.369
1.402	1.380	1.370
1.403	1.381	1.371
1.404	1.382	1.372
1.405	1.383	1.373
1.406	1.384	1.374
1.407	1.385	1.375
1.408	1.386	1.376
1.409	1.387	1.377
1.410	1.388	1.378
1.411	1.389	1.379
1.412	1.390	1.380
1.413	1.391	1.381
1.414	1.392	1.382
1.415	1.393	1.383
1.416	1.394	1.384
1.417	1.395	1.385
1.418	1.396	1.386
1.419	1.397	1.387
1.420	1.398</td	

NYSE Most Actives

	Vol.	High	Low	Last	Chg.
Horn wt	3,897	97	95	97	+1
Horn wt	3,437	237	235	237	+1
Horn wt	3,020	206	204	206	+1
Horn wt	2,581	261	259	262	+1
Gemini	1,958	152	150	152	+1
AT&T	1,822	195	192	195	+1
American	1,762	227	225	227	+1
Ammun	1,722	211	209	211	+1
Banks	1,302	132	130	132	+1
LockInd	1,224	517	515	517	+1

Market Sales

	NYSE 4 p.m. volume	NYSE prev. close	Close
Amex 4 p.m. volume	12,360,000	12,360,000	12,360,000
Amex 4 p.m. close	160,550,000	160,550,000	160,550,000
OTC 4 p.m. volume	120,172,000	120,172,000	120,172,000
OTC 4 p.m. volume	132,091,000	132,091,000	132,091,000
NYSE volume down	12,360,000	12,360,000	12,360,000
Amex volume down	160,550,000	160,550,000	160,550,000
OTC volume up	120,172,000	120,172,000	120,172,000
OTC volume down	132,091,000	132,091,000	132,091,000

NYSE Index

	High	Low	Close	Chg.
Composite	163.72	162.15	162.77	-0.51
Industrials	159.57	158.45	159.45	-0.72
Utilities	71.98	71.47	71.47	-0.53
Finance	148.49	145.70	145.74	-0.86

Tuesday's NYSE Closing

Via The Associated Press

NYSE Diary

	Close	Prev.
Advanced	626	621
Declined	817	802
Unchanged	749	742
Total Issues	1,772	1,665
New Highs	25	27
New Lows	26	27

Included in the sales figures

Odd-Lot Trading in N.Y.

	Buy	Sales	Buy/Sales
June 1	251,261	261,100	1.00
May 29	251,535	249,242	1.00
May 28	250,535	247,100	1.00
May 26	254,421	241,028	1.33

Dow Jones Averages

	Open	High	Low	Last	Chg.
Industrials	228.47	229.04	228.02	227.22	-1.81
Transport	269.17	270.24	268.79	269.70	-0.16
Finance	263.10	264.41	263.41	264.41	-1.25
Utilities	264.37	265.37	264.09	265.31	-1.25

Standard & Poor's Index

	High	Low	Close	Chg.
Industrials	227.47	228.04	228.47	-1.28
Transport	269.24	270.24	269.70	-0.46
Finance	263.16	264.41	265.31	-1.25
Utilities	264.37	265.37	264.09	-1.25

NASDAQ Index

	Close	Prev.
Advanced	972	967
Declined	1,217	1,207
Unchanged	2,476	2,459
Total Issues	4,493	4,493

AMEX Diary

	Close	Prev.
Advanced	341	337
Declined	345	341
Unchanged	512	512
New Highs	18	18
New Lows	18	18

AMEX Stock Index

	High	Low	Close	Chg.
Echols	593	57	57	+1
Worrell	272	267	267	+1
Turner	357	352	352	+1
Alaris	280	278	278	+1
TIE	148	147	147	+1
DEI	215	215	215	+1
Amdec	141	140	140	+1
Audia	1418	1392	1392	+1
NYTR	1024	382	379	+1
TexAir	1024	382	379	+1

Dow Jones Bond Averages

	Close	Chg.
Bonds	67.42	-0.15
Utilities	67.42	-0.20
Industrials	68.29	-0.20

12 Month High Low Stock Div. Yld. PE Stk. 100% High Low Close Qual. Chg.

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Commerzbank Backs VW Managers

By Ferdinand Protszman
International Herald Tribune

FRANKFURT — Volkswagen's managing board received a traditional vote of confidence Tuesday when Commerzbank AG recommended that VW shareholders exonerate the company's top management for blame in a currency trading scandal that has cost the company 473 million Deutsche marks, or about \$238 million.

The automaker's largest single shareholder is the government of the state of Lower Saxony, which is a 20 percent stake in the company. The federal government also has an estimated 16 percent stake in Volkswagen.

Stad Rotterdam Buys 20% Of Swiss-Owned Firm, EVM

By Ronald van de Krol
Special to the Herald Tribune

ROTTERDAM — Stad Rotterdam NV, the sixth largest Dutch insurance group, said Tuesday that it is buying a 20 percent stake in ampecosche Verzekering Maatschappij NV from Union Rückversicherungs-Gesellschaft of Zurich, and may raise its holding later.

EVM, based in Amsterdam, is a Dutch market leader in recreation and travel insurance and is active in insuring pleasure boats and camping caravans.

A spokesman for Stad Rotterdam, Carlo De Swart, declined to say exactly how much the company was paying for the stake. But he said the price had been "good," reflecting the fact that EVM posted losses in 1985 and 1986 — the first in its 65-year history.

Analysts at Dutch banks estimated that Stad Rotterdam was paying less than 5 million guilders (\$2.5 million) for the holding.

EVM's losses of 9.6 million guilders in 1985 and 4.5 million guilders in 1986 were largely from its car insurance activities, a sector in which most Dutch insurers have also reported losses or seen sharply lower yields recently.

EVM had premium income of 150 million guilders in 1986. Stad Rotterdam's premium income was 1.17 billion guilders last year.

The Swiss parent company, which is to retain the remaining 80 percent of EVM, had been interested in finding a Dutch partner for its subsidiary, Mr. De Swart said.

He said the insurers would evaluate the success of their partnership in several years and decide whether and how they should continue to cooperate.

This may include Stad Rotterdam raising its stake in EVM," Mr. De Swart said.

He said the travel and recreation market was expected to see further growth as people found themselves with more and more free time.

Share analysts said EVM's losses

would probably narrow this year as the result of a scheduled rise in Dutch car insurance premiums.

Italy to Merge Telecommunications Firms

By David Brown
Special to the Herald Tribune

ROME — The Italian government approved a key merger Tuesday between public and private telecommunications interests with the aim of raising Italy's competitiveness in the sector.

After more than a year of talks, state-owned Italtel group and its Telettra subsidiary will be merged into a new holding company named Telit following final approval by Cieco Dardia, Italy's minister for state holdings.

The new company will have annual sales of 2 trillion lire (\$1.5 billion) and 23,000 employees. Telit is expected to aim for a larger European market share by

commerzbank, the third-largest commercial bank in West Germany, tied its support for the board, however, to an independent study being conducted by Deutsche Treuhand, a leading accounting firm. The report is expected by the end of June.

"We are recommending that Volkswagen shareholders exonerate the managing board," Commerzbank said in a statement to shareholders. "The recommendation is subject to revision depending on the findings contained in the report by Deutsche Treuhand."

The scandal at West Germany's largest automaker broke in early March, when VW revealed that it

could have losses of up to 480 million DM from fraudulent foreign exchange dealings. The total was later put at 473 million DM.

The company's finance director, Rolf Selowsky, and Burkhardt Junger, VW's chief foreign exchange dealer, were dismissed. Mr. Junger was later jailed on suspicion of fraud. Mr. Selowsky is not suspected of criminal actions. Federal and local prosecutors are still investigating the case.

The decision by Commerzbank follows rumors that Deutsche Bank AG, West Germany's largest commercial bank, would advise its clients who hold VW shares to hold the automaker's managing board, whose chairman is Carl H. Hahn, responsible for the scandal.

Both Deutsche Bank and some VW shareholders are said to be objecting to the use of foreign exchange trading to generate profit rather than simply cover foreign earnings exposure. Mr. Hahn said in May that VW was reviewing the use of its foreign exchange trading operation as a "profit center."

"I think Deutsche Bank and Dresden Bank will follow Commerzbank's lead on this," said a Frankfurt-based stock analyst. "I never imagined the banks would do otherwise. In the past, banks have withdrawn support for managing boards of companies that were on the brink of collapse. But Volkswagen is profitable and relatively healthy."

Several analysts said, however, that there was friction between Deutsche Bank's managing board and Mr. Hahn.

"It is believed the Deutsche

Bank board and Mr. Hahn have exchanged sharp words on more than one occasion about how VW is managed," an analyst for a West German bank said. "The VW board has recently been an internally contentious group, so there are also questions about how solid is Mr. Hahn's backing within the company."

Seeking ties with one of the world's major telecommunications groups,

Preliminary contacts have already been made with L.M. Ericsson of Sweden, Siemens AG of West Germany, Plessey Co. PLC and General Electric Co. PLC of Britain, sources said.

Ericsson has offered to sell Telit shares amounting to as much as 10 percent stake.

Official approval came after long negotiations under the previous Socialist-led government coalition, which wanted to retain state control over the new company's shareholding structure.

The plan calls for Fiat and the Istituto per la Ricostruzione Industriale, Italy's state holding company, to each take a 48 percent stake in the new company.

Mediobanca SpA, the country's leading merchant bank, or another state institution will buy the remaining 4 percent.

Because Italit's revenue is twice that of Telettra, Fiat is expected to pay the government an unspecified sum for its shareholding.

Appointment of top management is likely to be delayed until after Italy's June 14 general elections.

Coniston has sued Allegis, challenging its sale of \$700 million in notes to Boeing Co. as part of a \$2.1 billion aircraft purchase under which Boeing could take control of 16 percent of Allegis stock. Coniston controls 13 percent of Allegis.

Hanson Posts 97% Profit Rise in First Half

International Herald Tribune

LONDON — Hanson Trust PLC, a British conglomerate with major U.S. interests, nearly doubled pretax profit for the six months that ended March 31, mostly because of acquisitions, the company said Tuesday.

Pretax profit rose 97 percent, to £312 million (\$505 million), a half-year record, from £158 million in the period a year earlier.

Hanson said the results included the first contributions from recent acquisitions, including Imperial Tobacco Ltd. and Imperial Foods Ltd. of

Britain and SCM Corp. and Kaiser Cement Corp. of the United States.

Operating profit climbed 80 percent, to £296 million, from £164 million a year earlier.

Paul Burke, an analyst with Kleinwort Grieson Securities, said contributions from Imperial Foods, Imperial Tobacco and SCM generated about half the total operating profit.

Sales in the half, again reflecting acquisitions, rose 126 percent, to £3.47 billion, from £1.55 billion a year earlier. Net profit was up 105 percent, to £234 million, from £114 million.

Madrid Aloofness to FECSA Worries Foreign Creditors

Reuters

MADRID — Government reluctance to assist FECSA, the debt-laden private electricity utility, is worrying foreign creditors in Spain.

Senior managers at several American banks that are owed money by Fuerzas Electricas de Cataluna SA said they feared that its debt crisis could affect other companies in a key sector of Spain's economy.

Most of Spain's utility compa-

nies are in private hands, but the government fixes tariffs. Creditors say that the government should at least raise rates enough to enable FECSA to pay its debts.

In March, a month after the Madrid stock exchange suspended trading in FECSA shares because of the company's financial difficulties, the utility defaulted on more than \$1 billion of foreign currency debt.

The government, which had asked foreign banks to accept delayed interest payments, said it would not offer further assistance. "There has got to be a solution to this," a U.S. banker said. "But the question is, how long is it going to take? And will FECSA have an adverse impact on other, healthier companies in the sector?"

He added, "No one is lending to any of the other companies except in small amounts."

CHICAGO — Allegis Corp. has created a limited partnership to sell selected hotels in Canada through a public offering that is expected to generate more than 350 million Canadian dollars (\$261 million), the company said Tuesday.

The limited partnership will be similar to the Westin Hotels Limited Partnership completed last year, in which the Westin St. Francis in San Francisco and the Westin Hotel in Chicago were sold for \$80.6 million.

An Allegis spokesman said the offerings had been planned for some time and were unrelated to the company's recapitalization plan and a threatened takeover by an investor group, Coniston Partners.

Coniston has sued Allegis, challenging its sale of \$700 million in notes to Boeing Co. as part of a \$2.1 billion aircraft purchase under which Boeing could take control of 16 percent of Allegis stock. Nowdays they simply clear out of a market at the first whiff of trouble."

Allegis Creates A Unit to Sell Canadian Hotels

United Press International

CHICAGO — Allegis Corp. has created a limited partnership to sell selected hotels in Canada through a public offering that is expected to generate more than 350 million Canadian dollars (\$261 million), the company said Tuesday.

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Coniston has sued Allegis, challenging its sale of \$700 million in notes to Boeing Co. as part of a \$2.1 billion aircraft purchase under which Boeing could take control of 16 percent of Allegis stock. Nowdays they simply clear out of a market at the first whiff of trouble."

"After the Latin America debt problem blew up, many banks became very cautious," said the chairman of the Spanish branch of a leading American bank. "Nowadays they simply clear out of a market at the first whiff of trouble."

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October 1987

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23 Friday

oil and money conference.
London

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The eighth International Herald Tribune/Oil Daily conference on "Oil and Money in the Eighties" will take place on October 22 and 23 in London.

The conference which has become a major annual event in international energy circles, will feature an outstanding group of worldwide energy and financial experts and government leaders from Europe, the Middle East and the United States. The conference is designed to provide senior executives from the financial and energy sectors with an annual comprehensive update on the world oil market.

For full details please clip your business card to this announcement message and return it to: International Herald Tribune, Conference Office, 63, Long Acre, London WC2E 9JH. Or Telephone: (44) 81 4802 Telex: 26209.

INTERNATIONAL Herald Tribune
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Notice of Redemption and Termination of Conversion Rights

Komatsu Ltd.

(Kabushiki Kaisha Komatsu Seisakusho)

7 1/2% Convertible Debentures due June 30, 1990

NOTICE IS HEREBY GIVEN that, pursuant to the provisions of the Indenture dated as of July 1, 1975, as supplemented by a First Supplemental Indenture dated as of September 1, 1982 (effective as of October 1, 1982) between Komatsu Ltd. (the "Company") and First National City Bank (now Citibank, N.A. as the "Trustee") under which the above-designated Debentures were issued, \$241,000 aggregate principal amount of the said Debentures of the following distinctive numbers has been drawn by lot for redemption on June 30, 1987 through the operation of the sinking fund at the redemption price of 100% of the principal amount thereof:

REGISTERED DEBENTURES WITH PREFIX LETTERS RM
(To be redeemed in full at \$1,000 each)

2401	1542	2540	2550	2560	2565	2570	2571	2580	2587	2621	2754
2402	1543	2541	2551	2561	2566	2571	2572	2581	2588	2622	2755
2403	1544	2542	2552	2562	2567	2572	2573	2582	2589	2623	2756
2404	1545	2543	2553	2563	2568	2573	2574	2583	2590	2624	2757
2405	1546	2544	2554	2564	2569	2574	2575	2584	2591	2625	2758

REGISTERED DEBENTURES WITH PREFIX LETTERS RV
(The principal amount thereof to be redeemed appearing in parentheses after the number)

2406	1547	2545	2555	2565	2575	2585	2595	2605	2615	2626	2759
2407	1548	2546	2556	2566	2576	2586	2596	2606	2616	2627	2760
2408	1549	2547	2557	2567	2577	2587	2597	2607	2617	2628	2761
2409	1550	2548	2558	2568	2578	2588	2598	2608	2618	2629	2762

REGISTERED DEBENTURES WITH PREFIX LETTERS RB
(The principal amount thereof to be redeemed appearing in parentheses after the number)

2410	1551	2549	2559	2569	2579	2589	2599	2609	2619	2629	2763
2411	1552	2550	2560	2570	2580	2590	2600	2610	2620	2630	2764
2412	1553	2551	2561	2571	2581	2591	2601	2611	2621	2631	2765

COUPON DEBENTURES WITH PREFIX LETTER M
(To be redeemed in full at \$1,000 each)

902	1554	2552	2562	2572</
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Petromin

TENDER NOTICE

Preliminary to the invitation of international qualified bids, the General Petroleum & Mineral Organization, "PETROMIN", invites manufacturers of chemical additives to submit prequalification applications to provide PETROMIN's subsidiaries and factories with quantities required for the blending of about one million barrels of Lubricants and Greases for use by petrol, diesel, and marine engines as well as other industrial machinery. All materials supplied should conform to international standards and specifications.

Conditions for Prequalification:

THE PREQUALIFYING COMPANY SHOULD:

1. Be the original manufacturers of the chemical additives.
2. Have research and development facilities and capability in the field of processing chemical additives to cope with the developing international qualifications.
3. Present proof of his experience and evidence of his activities in this field during the last five years as a minimum.
4. Undertake to carry out at his expense, in co-ordination with PETROMIN, performance tests using PETROMIN's base stocks of "LUBREF" and submit the required certificates testifying that they conform to international qualifications such as those of the American Petroleum Institute. They should also obtain, in co-ordination with Petromin, attestation certificates from manufacturers of machinery as to the high quality of the various Lubricants and Greases.
5. Initially undertake to submit proposed chemical formulations up to the level of the required performance and also the results of quality performance tests using base stocks similar to LUBREF's Lubricants as shown by computer simulations.
6. Undertake to provide after-sale services in connection with improving the standard and level of performance of the Lubricants to cope with developments in this field.
7. Submit a copy of their constituting by-laws and a statement of their financial position for the last two years.
8. Should not be boycotted according to Saudi Regulations.

All prequalification applications should be submitted to the General Petroleum & Mineral Organization, "PETROMIN", Riyadh 11189, Kingdom of Saudi Arabia, Fax No. 4792849, Telex No. 401058 SJ. (401490) - (402802) - (401615) S.J. in sealed envelopes addressed as follows:

"Prequalification for Supply of Chemical Additives"

Attention: Legal Advisor / Faisal Al-Jarba

All enquires should also be sent to the same address.

The last date for submitting applications is Saturday the 1st of Dhul Qida corresponding to 27/6/1987.

Only companies and organizations qualified in accordance with the above conditions will be invited to tender.

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France FF.	1,500		820		450		FF. 1.88
Germany* DM.	580		320		175		DM. 1.11
Gr. Britain £	150		72		40		£ 0.19
Greece Dr	22,000		12,000		6,600		Dr. 49.56
Ireland £.Irl.	150		82		45		£.Irl. 0.29
Italy Lire	380,000		210,000		115,000		Lire 756
Luxembourg L.Fr.	11,500		6,300		3,400		L.Fr. 18.41
Netherlands FL	650		360		198		FL. 1.21
Norway* N.Kr.	1,800		990		540		N.Kr. 3.05
Portugal Esc	22,000		12,000		6,600		Esc. 64.56
Spain* Pts	29,000		16,000		8,800		Pts. 55.33
Sweden* SKr	1,800		990		540		SKr. 3.05
Switzerland S.Fr.	510		280		154		S.Fr. 1.10
Rest of Europe, North Africa, former French Africa, Middle East \$	450		230		125		\$ 1.00
Rest of Africa, Gulf States, Asia \$	580		320		175		\$ 1.00
Varies by country							

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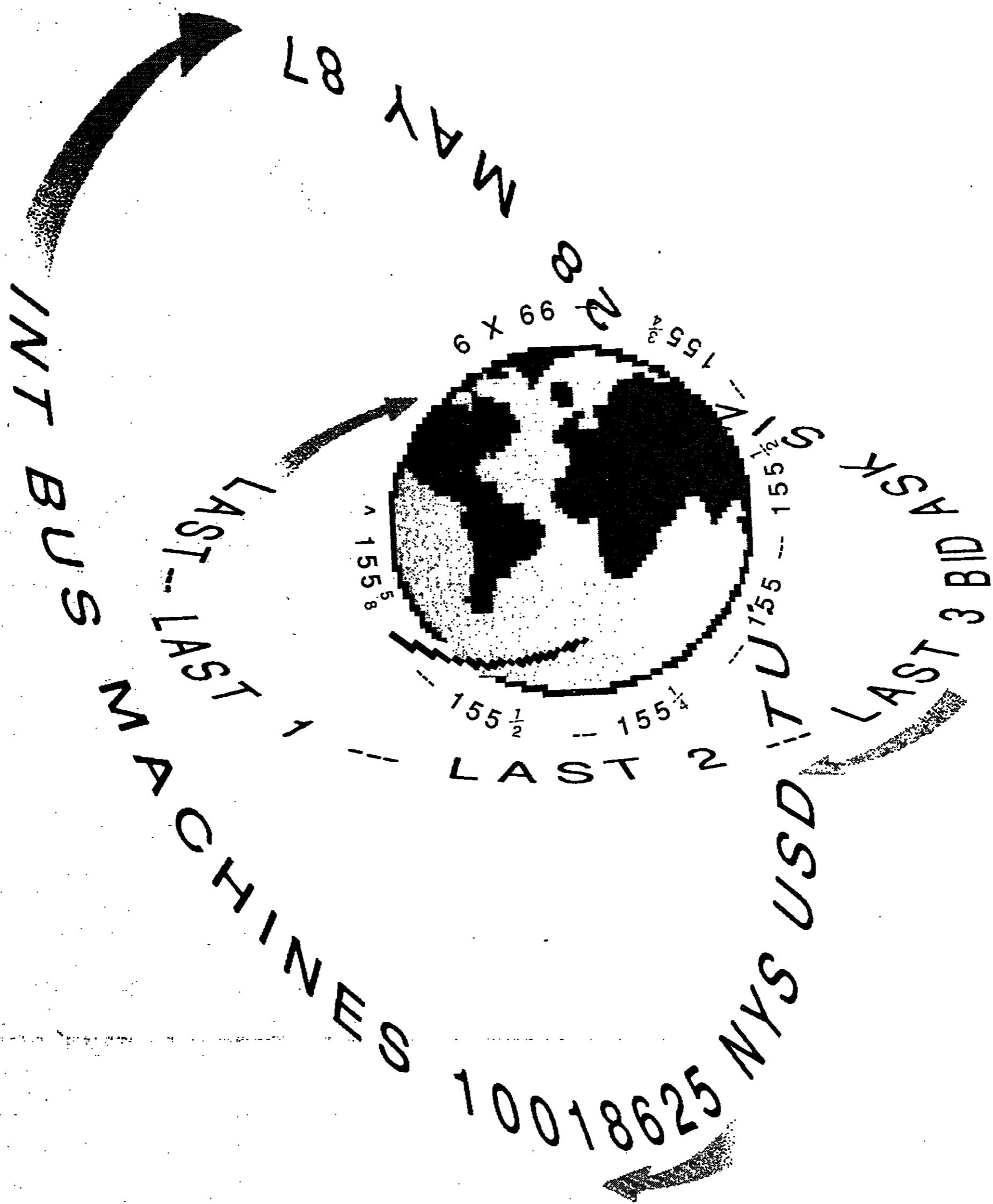
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3-6-87

Tuesday's NYSE Closing

Tables include the nationwide prices up to the closing on Wall Street and do not reflect late trades elsewhere.

12 Month High Stock	Div. Yld. PE	52 Wk. High Low	Close	Chg. Qtr. Chg.
3779 242 Southern 1,020 2.5	148	3204 2725 2727	2725	+ 1 + 1
3780 242 Standard 1,020 2.5	203	2624 2625 2625	2625	- 1 - 1
3781 242 Standard 1,020 2.5	212	2715 2716 2716	2716	+ 1 + 1
3782 242 Standard 1,020 2.5	212	2715 2716 2716	2716	+ 1 + 1
3783 242 Standard 1,020 2.5	212	2715 2716 2716	2716	+ 1 + 1
3784 242 Standard 1,020 2.5	212	2715 2716 2716	2716	+ 1 + 1
3785 242 Standard 1,020 2.5	212	2715 2716 2716	2716	+ 1 + 1
3786 242 Standard 1,020 2.5	212	2715 2716 2716	2716	+ 1 + 1
3787 242 Standard 1,020 2.5	212	2715 2716 2716	2716	+ 1 + 1
3788 242 Standard 1,020 2.5	212	2715 2716 2716	2716	+ 1 + 1
3789 242 Standard 1,020 2.5	212	2715 2716 2716	2716	+ 1 + 1
3790 242 Standard 1,020 2.5	212	2715 2716 2716	2716	+ 1 + 1
3791 242 Standard 1,020 2.5	212	2715 2716 2716	2716	+ 1 + 1
3792 242 Standard 1,020 2.5	212	2715 2716 2716	2716	+ 1 + 1
3793 242 Standard 1,020 2.5	212	2715 2716 2716	2716	+ 1 + 1
3794 242 Standard 1,020 2.5	212	2715 2716 2716	2716	+ 1 + 1
3795 242 Standard 1,020 2.5	212	2715 2716 2716	2716	+ 1 + 1
3796 242 Standard 1,020 2.5	212	2715 2716 2716	2716	+ 1 + 1
3797 242 Standard 1,020 2.5	212	2715 2716 2716	2716	+ 1 + 1
3798 242 Standard 1,020 2.5	212	2715 2716 2716	2716	+ 1 + 1
3799 242 Standard 1,020 2.5	212	2715 2716 2716	2716	+ 1 + 1
3800 242 Standard 1,020 2.5	212	2715 2716 2716	2716	+ 1 + 1
3801 242 Standard 1,020 2.5	212	2715 2716 2716	2716	+ 1 + 1
3802 242 Standard 1,020 2.5	212	2715 2716 2716	2716	+ 1 + 1
3803 242 Standard 1,020 2.5	212	2715 2716 2716	2716	+ 1 + 1
3804 242 Standard 1,020 2.5	212	2715 2716 2716	2716	+ 1 + 1
3805 242 Standard 1,020 2.5	212	2715 2716 2716	2716	+ 1 + 1
3806 242 Standard 1,020 2.5	212	2715 2716 2716	2716	+ 1 + 1
3807 242 Standard 1,020 2.5	212	2715 2716 2716	2716	+ 1 + 1
3808 242 Standard 1,020 2.5	212	2715 2716 2716	2716	+ 1 + 1
3809 242 Standard 1,020 2.5	212	2715 2716 2716	2716	+ 1 + 1
3810 242 Standard 1,020 2.5	212	2715 2716 2716	2716	+ 1 + 1
3811 242 Standard 1,020 2.5	212	2715 2716 2716	2716	+ 1 + 1
3812 242 Standard 1,020 2.5	212	2715 2716 2716	2716	+ 1 + 1
3813 242 Standard 1,020 2.5	212	2715 2716 2716	2716	+ 1 + 1
3814 242 Standard 1,020 2.5	212	2715 2716 2716	2716	+ 1 + 1
3815 242 Standard 1,020 2.5	212	2715 2716 2716	2716	+ 1 + 1
3816 242 Standard 1,020 2.5	212	2715 2716 2716	2716	+ 1 + 1
3817 242 Standard 1,020 2.5	212	2715 2716 2716	2716	+ 1 + 1
3818 242 Standard 1,020 2.5	212	2715 2716 2716	2716	+ 1 + 1
3819 242 Standard 1,020 2.5	212	2715 2716 2716	2716	+ 1 + 1
3820 242 Standard 1,020 2.5	212	2715 2716 2716	2716	+ 1 + 1
3821 242 Standard 1,020 2.5	212	2715 2716 2716	2716	+ 1 + 1
3822 242 Standard 1,020 2.5	212	2715 2716 2716	2716	+ 1 + 1
3823 242 Standard 1,020 2.5	212	2715 2716 2716	2716	+ 1 + 1
3824 242 Standard				



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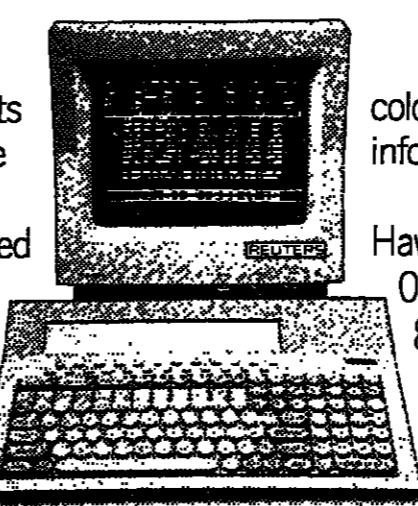
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2000 → AND BEYOND →

Tuesday's
AMEX
Closing

Tables include the nationwide prices up to the closing on Wall Street and do not reflect late trades elsewhere.
Via The Associated Press

ADVERTISEMENT
INTERNATIONAL FUNDS (Quotations Supplied by Funds Listed) 2nd June 1987

NET ASSET VALUE QUOTATIONS (QUOTATIONS SUPPLIED BY FUNDS LISTED IN THIS SECTION)

Net asset value quotations are supplied by the Funds listed with the exception of some quotes based on issue price.
The marginal symbols indicate frequency of quotations supplied: (d) - daily; (w) - weekly; (b) - bi-monthly; (r) - regularly; (ir) - irregularly.

Floating-Rate Notes

THE VOLCKER BOMBSHELL: Decision to quit Fed stuns markets, revives fears of inflation

VOLCKER: Fed Chief Quits, Greenspan Nominated

(Continued from Page 1)

chomping on the cigar that has become his trademark.

Mr. Reagan called Mr. Greenspan late Monday afternoon and offered him the post. In announcing the appointment, the president said, "My dedication to our fight to hold down the forces of inflation remains as strong as ever, and I know that Dr. Greenspan shares that same commitment."

The Federal Reserve, one of the most influential economic forces in the world, regulates federally chartered banks and controls the nation's flow of money. Its executives include a seven-member board of governors and the presidents of the 12 Federal Reserve banks.

Mr. Volcker, considered a political independent, has been chairman of the Fed since 1979. His tenure at the Fed began under the cloud of escalating inflation during the Carter administration, with consumer prices rising more than 10 percent annually and the prime rate exceeding 20 percent.

With Mr. Reagan's backing, Mr. Volcker pursued a tight money policy that cut inflation to about 3 percent annually and reduced interest rates to their lowest level in nearly a decade.

Mr. Greenspan, 61, was a consultant to the Council of Economic Advisers beginning in 1970, during the administration of President Richard M. Nixon.

He was reported to have turned down three offers of the panel's chairmanship before accepting the job in 1974, when Mr. Nixon resigned over the Watergate affair.

He was considered closer to Mr. Ford than to Mr. Reagan, but has frequently won the current administration's admiration, particularly when he headed a presidential commission that developed a compromise plan in 1983 to salvage the nation's Social Security system. The issue was a politically sensitive one for Mr. Reagan.

The question of whether Mr. Volcker would be reappointed also was sensitive politically. As the architect of tight money policies, he has been criticized both by Republican conservatives and some Democratic liberals who favor an increase in the money supply.

Mr. Greenspan is considered a

moderate conservative. He is close to Treasury Secretary James A. Baker 3d, another veteran of the Ford administration.

Mr. Reagan was asked Tuesday whether Mr. Greenspan had given him a pledge that he would not raise interest rates during the 1988 election campaign. The president declined to answer any questions about the appointment, and Mr. Greenspan said he would not comment on substantive matters until his Senate confirmation hearings.

[Reaching Tuesday to Mr. Volcker's resignation, Mr. Baker said that Mr. Reagan "made it very clear that he would be very, very pleased had the chairman's decision been otherwise." Reuters reported.]

But some administration officials, speaking on condition that they not be identified, said that the administration would be more comfortable with Mr. Greenspan in the job.

U.S. congressional leaders said they regretted the loss of Mr. Volcker and were widely divided in their opinions of Mr. Greenspan.

Bob Dole of Kansas, leader of the Republican majority in the Senate, said that Mr. Greenspan's knowledge of the economy and experience in government under Mr.

Nixon and Mr. Ford would make him a worthy replacement.

"Alan's knowledge of the economy, coupled with his experience at the top levels of government, means that the leadership of the Federal Reserve Board will be in good hands," Mr. Dole said. "Alan literally has some big shoes to fill. But I haven't any doubts he's more than equal to the task."

But Representative Jim Wright of Texas, the leader of the majority Democrats in the House of Representatives, said he feared that Mr. Greenspan's appointment would lead to higher interest rates and a slowdown in the economy.

Mr. Wright said that Mr. Greenspan would not have been his choice. "His previous service indicates the kind of economic policies based on the trickle down theory rather than the percolate up theory," he said. "This theory tends to higher interest rates."

Senator William Proxmire, the Wisconsin Democrat who heads the Senate Banking Committee, called Mr. Volcker's departure "a serious loss for the country."

"Mr. Volcker has been a superb chairman of the Federal Reserve Board," Mr. Proxmire said. "He has the confidence of the business community."

Faithfully yours,

Paul A. Volcker

Text of Volcker Resignation

WASHINGTON — Following is the full text of Federal Reserve Board Chairman Paul A. Volcker's letter to President Ronald Reagan:

Dear Mr. President:

As the end of my term as chairman of the Federal Reserve Board approaches, you naturally have to consider an appropriate new appointment.

In that connection, you will recall that, upon my reappointment as chairman in 1983, I felt unable to make a firm commitment to you or to the Congress to remain in office for a second full four-year term. Despite my reservations at the time, that term is in fact now almost finished. However, I do think, after eight years as chairman, a natural time has come for me to return to private life as soon as reasonably convenient and consistent with an orderly transition. Consequently, I do not desire reappointment as chairman and I plan to resign as governor when a new chairman is prepared to assume office.

I will be leaving with a sense of great appreciation for your unfailing courtesy to me personally. More broadly, your consistent support of the Federal Reserve during a particularly challenging period for it, for the financial system, and for the economy has been critical to whatever success we have had.

Without doubt, strong challenges remain for all of those involved in economic policy. In that effort, I believe the nation will continue to be well served by a strong Federal Reserve System — a system firmly dedicated to fostering economic and financial strength and stability and able to bring to that effort a combination of sound and independent professional judgment and continuity beyond any partisan considerations.

May I add, too, my personal best wishes for the remainder of your own term in office during which you have done so much to restore a sense of confidence and self-reliance among the American people.

Faithfully yours,

Paul A. Volcker

A 'Free-Enterpriser' for the Fed

But Volcker's Successor Is Considered No Dogmatist

Compiled by Our Staff From Dispatches

WASHINGTON — Alan Greenspan is considered Washington's most important private economic adviser and a conservative who is not a slave to dogma.

Mr. Greenspan, President Ronald Reagan's choice to succeed Paul A. Volcker as the Federal Reserve Board chairman, has served as an economic adviser to three Republicans and as a consultant to major businesses.

"He's brilliant; he's quiet; he's dedicated; he's a poor tennis player," said Robert Kavesh, a New York University economics professor and a long-time friend.

Mr. Greenspan headed the National Commission on Social Security from 1981-83, a time when it was charged with finding a way to bail out the system. His bipartisan committee not only produced its report, but saw the plan passed almost intact by a deadlocked Congress.

Mr. Greenspan was flexible enough to return to university during his tenure as an adviser to President Richard M. Nixon. Finishing his doctorate requirements at the urging of Mr. Kavesh, who felt it was "a loss" to have one of the nation's best-known economists operating with a 20-year-old half-completed doctorate.

As a young man, Mr. Greenspan played the saxophone with Henry Jerome's touring orchestra. On the road, he once recalled, he decided "economics held a brighter future than the music business." He returned home to New York and became an honors student at NYU, from which he also holds bachelor's and master's degrees.

He entered politics as a supporter of Mr. Nixon and director of domestic policy research for his 1968 campaign and was a consultant to the President's Council of Economic Advisors beginning in 1970. He was reported to have turned down three offers of the panel's chairmanship before accepting the job in 1974, during the final days of Watergate.

In London, the dollar closed at 1,803 DM, compared with 1,8325 Monday, and at 142 yen, down from 145.35. Sterling closed at \$1.6430, down from \$1.6250.

deteriorate or even collapse" during the last days of the administration.

He arrived in Washington expecting to be there for a short time. Mr. Nixon was gone within a month, but Mr. Greenspan stayed through the Ford administration.

After finishing his tenure in January 1977, he returned to his New York-based Townsend-Greenspan & Co. economics consulting company. He has served on the boards of Aluminum Co. of America, General Foods Corp. and Mobil Corp.

He was credited with writing Mr. Reagan's major economic policy statement in the 1980 campaign, an attempt to demonstrate that tough spending cuts and big tax reductions could add up to a balanced budget. After the election, he tangled with so-called supply siders, who were less concerned with balanced budgets than tax cuts.

"Greenspan's a very conservative guy, a tight money guy," said Michael Evans, a private economic analyst in Washington. "So the policies

of the Fed probably will not change very much, even with Volcker gone."

"After all, the alternative was appointing some type of easy-money guy who thinks interest rates have been too high for the past few years," Mr. Evans added. "That's not Greenspan at all."

Over the years, Mr. Greenspan has built a reputation as a "free-enterpriser," who believes in little government intervention in the economy as possible.

He is a devotee of Adam Smith, whose "The Wealth of Nations" published in 1776 espoused laissez-faire theories and influenced the classical school of economics. And Ayn Rand, the author of "The Fountainhead" and other novels, who espoused the theory of "rational self-interest."

His theoretical viewpoints are less well known. He's a conservative, his free-market oriented," said Robert G. Dederick, chief economist for Northern Trust Co. in Chicago. (UPI, AP)

Greenspan on the Economy: A Sampler

Reuters

WASHINGTON — Selected comments by Alan Greenspan, nominated Tuesday to be chairman of the Federal Reserve Board:

Dollar

Asked Tuesday if the dollar had reached a low point against other major currencies, Mr. Greenspan said: "There certainly is evidence in that direction."

"The dollar's move [rebound] this week is a technical reaction. Over the long run the dollar will be significantly lower." — May 27, 1987.

Inflation

"It has got the same characteristics as alcohol: It's great when you first swig. The problems occur later." — Oct. 17, 1980.

"It is clear that a high priority of the Reagan administration must be to make it credible to the financial community and all others that inflation will not be allowed to be an entrenched element in the American economy." — Nov. 6, 1980.

Budget Deficits

"It gets to the question, can we persist with this low inflation with federal budget deficits at current levels? And my answer is no." — Sept. 16, 1984.

Interest Rates

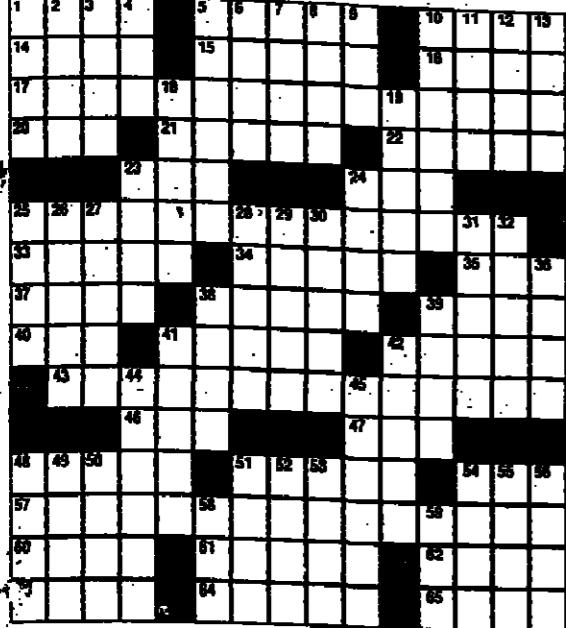
"We may be getting to the point where business is reluctant to expand plant and equipment with borrowed money for fear that if the investments should not be productive, they couldn't pay the service costs on the money they borrowed." — July 17, 1986.

Monetary Policy

"We may be getting to the point where business is reluctant to expand plant and equipment with borrowed money for fear that if the investments should not be productive, they couldn't pay the service costs on the money they borrowed." — July 17, 1986.

MARKETS: Initial Storm of Reaction Subsides, Leaving a Nervous Calm											
(Continued from Page 1)											

Tuesday's OTC Prices											
NASDAQ prices as of 4 p.m. New York time.											
In The Associated Press											
12 Month High Low Stock Div. Yld Sales in 100s Net 4 P.M. Close											
A											
14 1/2 ADC	44	22	22	22	22	22	22	22	22	22	22
17 2/3 ASEA	82	22	22	22	22	22	22	22	22	22	22
22 10% ASEA	448	122	122	122	122	122	122	122	122	122	122
15 1/2 ACTAR	16	12	12	12	12	12	12	12	12	12	12
24 1/2 Adcom	44	22	22	22	22	22	22	22	22	22	22
20 1/2 Adelphi	110	110	110	110	110	110	110	110	110	110	110
24 1/2 Adels	120	120	120	120	120	120	120	120	120	120	120
24 1/2 Adels	130	130	130	130	130	130	130	130	130	130	130
20 1/2 Adels	20	8	8	8	8	8	8	8	8	8	8
14 1/2 Adels	5	5	5	5	5	5	5	5	5	5	5
20 1/2 Adels	130	130	130	130	130	130	130	130	130	130	130
24 1/2 Adels	130	130	130	130	130	130	130	130	130	130	130
20 1/2 Adels	20	8	8	8	8	8	8	8	8	8	8
14 1/2 Adels	5	5	5	5	5	5	5	5	5	5	5
24 1/2 Adels	130	130	130	130	130	130	130	130	130	130	130
20 1/2 Adels	20	8	8	8	8	8	8	8	8	8	8
14 1/2 Adels	5	5	5	5							



PEANUTS

SO A TREE DOESN'T HAVE A STOMACH, IT HAS LIMBS, BUT THAT DOESN'T MAKE IT A TRACK STAR, DOES IT?



AND IF A TREE HAS A TRUNK, DOES THAT MAKE IT AN ELEPHANT? AND IF IT HAS BARK, DOES THAT MAKE IT A DOG?



HA HA HAHA!



DURING INTERVIEW PATIENT SUDDENLY BECAME HYSTERICAL...



BLONDIE

WHEN I WAS FIFTEEN I WANTED TO BE AN ASTRONAUT



THEN WHY DIDN'T YOU?

BECAUSE WHEN I WAS FIFTEEN...

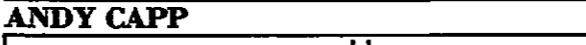


THERE WEREN'T ANY ASTRONAUTS

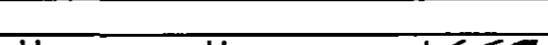


BEETLE BAILEY

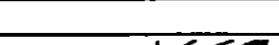
YOU SAW WHAT A NICE DAY IT WAS, SO YOU GOT MY CLUBS READY, THAT'S WHAT I CALL EFFICIENCY



THAT'S WHAT I CALL GETTING THE AFTERNOON OFF



MURK WALKER



ANDY CAPP

PET THIS BIRD FOR IT KEEPS STICKING ITS HEAD IN MY COOP AND HAVE A LOOK AT IT FOR ME



HANG ON, HANG ON, I WAS JUST THINKING ABOUT CLEANING OUT THE PIG PEN COOP

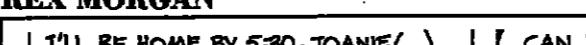
I CAN'T DO EVERYTHING AT ONCE

LOOK PAL, I'D JUST LIKE TO SEE YOU DO SOMETHING AT ONCE...



WIZARD OF ID

RENT

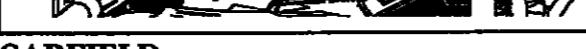


REPENT

ARE YOU A TERP?

REX MORGAN

I'LL BE HOME BY 5:30, JOANIE! WELL, GO OUT SOMEWHERE FOR DINNER, AND THEN TAKE IN A MOVIE--JUST THE TWO OF US! WOULD YOU LIKE THAT?



CAN I PICK THE MOVIE WE'LL SEE?

YOU NAME IT AND THAT WILL BE THE ONE!

GARFIELD

I BOUGHT YOU A SURPRISE TODAY, GARFIELD!



IT'S A SWEATER MADE ESPECIALLY FOR YOU!

WIDE LOAD

JUMBLE

THAT SCRAMBLED WORD GAME

by Hank Arnold and Bob Lee

Uncramble these four jumbles, one letter to each square, to form four ordinary words.

DYRIT

YONJE

CEXIES

PHATAY

Now arrange the circled letters to form the secret word suggested by the above cartoon.

(Answers tomorrow)

Yesterday's Jumble: WEDGE, CHIME, POTTER, LOCATE

Answer: what her robustous husband did when she asked him to perform a disagreeable chore—"CHOP TED."

→

WEATHER

EUROPE

ASIA

AFRICA

LATIN AMERICA

MIDDLE EAST

OCEANIA

Print answer here: www.nytimes.com/section/jumble.html

Answers tomorrow:

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